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ABSTRACT

Three hearings held before the U.S. House of Representatives on student financial assistance programs were concerned with the manner in which the Office of Education's assistance programs were being administered, the extent and nature of fraud, waste and abuse, and the progress of the Department of Health, Education, and Welfare's (HEW) corrective action. Statements were presented by Joseph Califano, Leo L. Kornfeld, and Thomas Morris, and letters and statements were submitted for the record. The seven student assistance programs administered by HEW are described and problems and corrective measures are outlined. The six student financial assistance programs administered by the Office of Education were consolidated into a single bureau, and the relationship between headquarters and the regions was rearranged. A computer systems expert who was experienced in helping educational institutions solve management problems was appointed to head the new bureau. One problem that has been addressed is the need to effectively coordinate HEW student assistance programs with those of other agencies, such as the Veterans Administration. (SW)

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# STUDENT FINANCIAL ASSISTANCE PROGRAMS

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# HEARINGS

BEFORE A

## SUBCOMMITTEE OF THE
## COMMITTEE ON
## GOVERNMENT OPERATIONS
## HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

JULY 27; AUGUST 3; AND OCTOBER 6, 1978

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# STUDENT FINANCIAL ASSISTANCE PROGRAMS

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THURSDAY, JULY 27, 1978

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Elliott H. Levitas, John W. Wydler, Clarence J. Brown, and John E. (Jack) Cunningham.

Also present: James R. Naughton, counsel; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order.

Let the record show a quorum is present.

Under the Rules of the House of Representatives, the Committee on Government Operations has jurisdiction over the overall economy and efficiency of Government operations and activities.

This responsibility, insofar as it relates to the Department of Health, Education, and Welfare and certain other departments and agencies, has been assigned to this Intergovernmental Relations and Human Resources Subcommittee.

The Office of Education is currently spending more than $4 billion annually—appropriated by the Congress—on student financial assistance programs, and it appears likely that expenditures may exceed $5 billion in the near future.

The subcommittee has been concerned for some time about the manner in which the Office of Education's student financial assistance programs are being administered. Our previous inquiries, as well as the work of other congressional committees and HEW's own auditors and investigators, have disclosed serious administrative deficiencies and widespread fraud and abuse in these programs.

During these hearings, we expect to place in the record additional information concerning the extent and nature of fraud, waste, and abuse in the Office of Education's student financial assistance programs. We also expect to review the progress of HEW's corrective action and to ascertain what further action is needed.

Mr. Secretary, before you begin your testimony, I note from your statement that you have already begun to initiate corrective action concerning some matters brought to HEW's attention by the subcommittee a few weeks ago, and I want to commend you for doing so.

I am sure that other matters needing attention will be disclosed during these hearings, and I want to assure you of our continued willingness to work with you in achieving badly needed corrective action.

Mr. Secretary, we are delighted to have you with us.

As a preface to your testimony, lest the facts be misunderstood, there have been many HEW Secretaries before you. These programs have been in effect for quite awhile. I think the committee and the Congress have a right to hold you responsible only for operations that have occurred during the course of your administration and which will occur—hopefully in an improved manner—in the days and months that lie ahead.

Mr. Wydler?

Mr. WYDLER. Mr. Chairman, I would like unanimous consent to insert my prefacing remarks in the record and just say that I am glad you are here, Mr. Secretary. I think the hearings are important.

I think the problem is massive and it requires some real attention and effort on the part of all concerned to get it under control.

Although I understand you are going to talk about the past and how the present is better than the past—and I am sure you will be able to make a reasonably good case on that point—the real question that this subcommittee should be addressing, and that the Congress should be addressing is: Where are we at the present?

It may be better than the past, but the problem is one of such enormity that unless we make a tremendous increase in the effort we are making in this area, an improvement is not going to be good enough.

I would just remind the Secretary that when we last had these hearings before our subcommittee, I was extremely concerned at that time about the possibility that some of the student loans which had been defaulted on at that time were just then maturing to the point that if they were not acted upon by U.S. attorneys and brought to judgment, they were going to be barred by the statute of limitations.

I pointed out to the people who were then in charge of the Department that they had better not let that happen. They had better make sure all of the loans that were, in fact, going to be outlawed by the statute of limitations went to the U.S. attorney and got to judgment so that the Government was protected.

I have not read your statement in full because I just got a copy of it, but if that precise matter is not in the statement, I want it on the record. I want to know exactly what has been done, what is being done, and what is planning to be done in that regard to make sure the Government's interest in these loans is protected—not only in the short term but in the long term—by seeing that the statute is not allowed to run out on them.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. Without objection, your remarks will be placed in the record at this point.

[Mr. Wylder's prepared statement follows:]

### PREPARED STATEMENT OF HON. JOHN W. WYDLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I want express my full support for these hearings that will look into the administration of student financial assistance programs. I commend you for starting hearings on such an important subject and join you in welcoming Secretary Califano.

All of us on this subcommittee, I think, understand the importance of these hearings. One of the greatest assets that any country has is its youth. One of the most important responsibilities of government—whether it is State, Local or Federal—is the education of that youth. That is why we have programs to provide financial assistance to those who can't afford it on their own. The question before us is simple: Are these programs working well? A lot of disturbing evidence indicates that they are not.

In September of last year the GAO estimated that about seven percent of the 1974-75 awards made under the Basic Educational Opportunity Grant Program were made to ineligible students.

In January of 1977 there were over 300,000 defaults in the Guaranteed Student Loan Program involving approximately $300 million in unrepaid principal and interest.

As of June 30, 1977 an estimated 700,000 students had defaulted on notes issued under the National Direct Student Loan Program.

Just recently, in my own State of New York, the State Consumer Protection Board has accused dozens of proprietary schools of what basically amounts to exploiting poor and disadvantaged students by taking their loan money—amounts that can be as high as $5,400 annually per student—and hustling them through courses they may not be equipped to take, or training them in occupations in which there are few employment possibilities.

Ripping-off the system, whether it is by students who don't believe they owe their government anything for the opportunity to get an education or whether it is by greedy hustlers who see a chance to make a buck at the expense of the government and the students, has got to be stopped. Every time we waste money through faulty administration there is less money to make the program work. Every time a student defaults on a loan another student is denied an opportunity.

I recall that in 1975 the subcommittee held hearings on the prevention and detection of fraud and program abuse in HEW programs. Problems in the student loan programs were discussed in some detail during those hearings. The hearings ultimately lead to legislation that established the Office of Inspector General. Since that time we've heard a great deal about such efforts as Project Match and Operation Cross Check.

Today I expect to find out in much more detail just exactly what is being done and, most importantly, what still remains to be accomplished.

Mr. **Fountain**. Thank you, Mr. Wydler. I quite agree with you that we are concerned about the present and the future. I made my statement as I did because these programs have been administered by many different people. It is not really a partisan proposition.

I am hopeful that the Secretary's statement and his answers to our questions this morning will lessen our concern and give us some encouragement for the future.

If there is no objection, I would like to have my letter to Secretary Califano of May 31, 1978, and his response of [illegible] 25, 1978, inserted in the record.

[The correspondence referred to appears in appendix 1.]

Mr. **Fountain**. We asked you a number of important questions—comprehensive questions—requiring a considerable amount of work. In going through your response last night to the many questions which we have propounded, I note that you have provided some very useful information.

You may proceed with your testimony at this time.

## STATEMENT OF JOSEPH A. CALIFANO, JR., SECRETARY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY THOMAS D. MORRIS, INSPECTOR GENERAL; AND LEO L. KORNFELD, DEPUTY COMMISSIONER FOR STUDENT FINANCIAL ASSISTANCE, OFFICE OF EDUCATION

Mr. **Califano**. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss the student financial assistance pro-

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grams administered by the Department of Health, Education, and Welfare.

I would like to describe the widespread benefits these programs have provided; the problems we found in the administration of these programs when we entered office; and the steps we have taken over the last 18 months to improve the operation and administration of these programs by both the Federal Government and by the participating institutions of higher education.

I would also, at the outset, Mr. Chairman, like to express my personal appreciation for the work of this subcommittee and its staff, particularly Mr. Naughton. He, as you will see when I go through my statement, is responsible, I think, for one of the most interesting and particularly productive computer techniques we are adopting to look at these programs. This suggestion came from Mr. Naughton and your subcommittee.

Mr. FOUNTAIN. I am delighted to see your Inspector General with you. He was appointed, of course, pursuant to legislation sponsored by this committee. We have approved another bill establishing similar Inspectors General in 12 other departments and agencies of the Government. It is pending in the Senate. I hope they will soon act because, in my opinion, millions of dollars are being lost every day.

Please proceed.

Mr. CALIFANO. As you know, I am a supporter of the concept of that legislation.

Let me underscore a vital point at the outset: The Federal student financial assistance programs have succeeded in making higher education more accessible to millions of Americans.

Properly administered, these programs provide a sound and sensible framework for making postsecondary education available to middle and lower income students now and in the future, and for achieving equal educational opportunity for minorities and other disadvantaged groups.

I would also note that in another sense these hearings are timely because next year is the year in which these higher education programs will be reauthorized. What we learn from these hearings can help us in making our recommendations for reauthorization.

Unfortunately, these programs have been neglected and poorly managed for so long, that our efforts to improve them—while aggressive—can only be described as the first necessary steps, a good start.

President Carter has been deeply concerned that we administer the student aid programs in a fiscally responsible manner, and I have committed this department to the necessary task of firmly establishing the accountablility and integrity of these programs. I am confident that we can succeed.

We have worked closely with your staff in preparing for these hearings, and I believe that they will be productive and useful.

I would like to express my appreciation to this subcommittee and its staff for your work in focusing on additional problems that must be addressed.

As you know, during our 18 months in office we have already taken major steps to improve these Federal student financial assistance programs. I am pleased to report that our efforts are beginning to show results.

Here are the most recent figures we have, which I would like to release for the first time before this subcommittee.

During the quarter that ended on June 30, 1978, we collected $4.5 million on defaulted guaranteed student loans—GSL—two times the amount collected during the same quarter in fiscal 1977.

I would note, Mr. Wydler, in response to your question, we are going after the oldest loans first. I can submit for the record exact numbers. But because we share the same concern you have, we are going after the oldest loans first, although they present some of the most difficult problems. It is harder to find those people and it is more difficult to maintain proper addresses.

In the same GSL program, approximately 15,000 student defaulters began repayment or fulfilled their obligation during the last fiscal quarter—1½ times the total for the entire fiscal year 1977.

Federal collectors are now converting defaulted GSL accounts to repayment at a rate of 1,200 per week—more than four times the rate a year ago.

We instituted Project Cross-Check which seeks to clean up the Federal Government's own house by using computers to match government payrolls against the federally insured student loan default file.

In the last 9 months, we have referred over 1,500 civil cases to U.S. attorneys, compared to a total of about 500 for the previous 5 years.

In the basic educational opportunity grant program (BEOG), newly installed computer screening procedures are rejecting 30 percent of the 1978–79 applications because they are incomplete or contain errors.

A new annual validation procedure will require 200,000 BEOG applicants to substantiate the information contained in their applications. We estimate that these procedures will reduce overpayments for the 1978–79 school year by over $100 million.

In addition, we will undertake new initiatives to further improve the administration of our student aid programs and reduce the potential for fraud, abuse, and error.

I will describe them more fully later but, in brief compass, the initiatives include:

One, a wide-ranging series of computer matches to assure the BEOG application information is accurate and to prevent double-dipping by students fraudulently seeking multiple grants. This initiative, which is in part the result of conversations with your staff, is a good example of the productive relationship we have had with this subcommittee.

Two, a top-to-bottom quality control study of the BEOG program to assure the integrity of this program from the beginning of the application process to the disbursement of grant awards.

Three, a stepped-up effort to improve the administration of the national direct student loan program (NDSL) by participating colleges and universities. This will include both enhanced technical assistance, as well as incentives for schools to reduce default rates.

Four, the Congress this week approved our request to reprogram funds to accelerate Federal collection activity in the GSL program.

Five, we are manning an effort to crack down systematically on institutional fraud and abuse, especially in proprietary schools.

And, six, a coordinated effort to insure that students do not receive more money in educational aid than they need to meet actual educational expenses.

I turn now to the programs.

Before detailing the problems we faced upon assuming office, let me describe the seven student assistance programs administered by HEW and their considerable accomplishments.

One, the basic educational opportunity grant program (BEOG) is an entitlement program that provides eligible students with a foundation grant to help them defray the costs of education.

The BEOG program, which began operation in 1973, has been the GI bill for the American poor and lower middle class. Students are awarded grants based on family income and the cost of college attendance, and awards may not exceed one-half the actual cost of attendance.

The maximum award for 1978-79 will be $1,600, and we are proposing that this ceiling be raised to $1,800 for the academic year 1979-80.

The BEOG program has been the cornerstone of this country's efforts to remove financial barriers to postsecondary education and has been instrumental in a single national achievement—doubling the number of black students entering college in the last 10 years. In academic year 1977-78 alone, 2 million students at about 6,000 institutions received grants under BEOG. Approximately 1.4 million of these students were from families with annual incomes below $9,000.

Two, the college work-study program provides 80 percent of the salary for a student's part-time employment in both on-campus jobs and off-campus employment. In academic year 1977-78, approximately 850,000 students at 3,200 institutions earned an average of $545 under this program.

Three, the supplemental education opportunity grant program provides grants to students with exceptional financial need. Institutions make these grants from Federal funds distributed to them on a formula basis. In academic year 1977-78, approximately 440,000 students at 3,500 institutions received average grants of $546.

Four, the State student incentive grant program provides funds to States on a matching basis. State agencies make grants to students based on need as defined by each State. In academic year 1977-78, approximately 240,000 students received average awards of $500.

Five, the guaranteed student loan program insures low interest loans made to students by commercial lenders, or, in some cases, by educational instutitions. It also reinsures loans insured by State guarantee or nonprofit agencies in 31 States. Undergraduates may borrow up to a total of $7,500; graduate students up to a total of $15,000. Students may repay loans over a 10-year period at a maximum of 7 percent interest. In addition, the Federal Government subsidizes interest costs to lenders and students. More than 11 million students loans insured by the Federal Government have been made by banks and other lenders since the beginning of the federally insured student loan program in 1967-68. In 1977-78, about 1 million students received loans averaging almost $1,700.

Six, the national direct student loan program provides funds to some 3,400 institutions for the purpose of making low-interest loans to needy students. The loans are made from a revolving loan fund at each institution, which is created with 90 percent Federal funds and a 10 percent contribution by the institution. Total loans may not exceed $10,000 for graduate students or $5,000 for undergraduates, and may be paid back over a 10-year period at 3 percent interest. Nine million students have received national direct student loans since the beginning of that program in 1958. In 1977-78, approximately 830,000 students received loans averaging $700.

Seven, the health education assistance loan program (HEAL) provides Federal insurance for loans made to graduate students in health professions schools.

I turn now to the problems.

I would like now to describe the situation at HEW when we arrived 18 months ago. A more detailed summary of the problems we faced in January 1977, and the steps taken and planned to correct these problems, is attached to my statement.

Mr. FOUNTAIN. Without objection, that will be placed in the record.

[The chronology referred to apears in appendix 2.]

Mr. CALIFANO. Upon assuming office we found that the student assistance programs, especially the GSL, NSDL, and, to a lesser extent, the BEOG programs, were plagued by four interrelated problems:

One, the programs had been poorly—even negligently—administered. The Department had failed, in many areas, to develop adequate regulations and procedures to insure the honest and responsible administration of these loan and grant programs, and did not enforce effectively those regulations that it did publish. The Department's efforts to collect on defaulted loans were sporadic, unsystematic, and ineffective.

Two, administration of the assistance programs by many colleges, universities, and technical schools was often lax or nonexistent, partly because HEW never made clear what would be required, and partly because of inattention by these institutions themselves.

Three, some of the schools enrolling students through the use of financial assistance programs offered little of educational or vocational value, thus exploiting the students and improperly taking their loan and grant money. In some instances, educational institutions—mainly proprietary schools—may have committed outright fraud. There are 53 cases now under investigation by the Inspector General involving potential criminal responsibility.

Finally, thousands of students did not view their obligation to repay their loans seriously.

As a result, in the guaranteed student loan program we found that there were more than 300,000 federally insured loans in default involving more than $300 million. This resulted in a default rate of 13 percent.

One source of the problem in this program was easy to identify: As of November 1977, virtually no students who had defaulted had been regularly billed by the Federal Government.

We found the campus-based NDSL program was operating at an average default rate of almost 20 percent. An estimated 700,000 students had defaulted on NDSL notes involving $600 million in unpaid principal since the program began operation in 1959-60. Our recently completed initial—and I stress initial—analysis indicates that at least 200 of the 3,400 participating institutions have default rates of higher than 50 percent; some higher than 80 percent. Since these records have not been well kept and since many institutions have not met our reporting requirements, these numbers are probably low. I would like to note, however, that 1,071 of the 3,400 participating institutions have a default rate of less than 10 percent.

In the basic educational opportunity grant program—which I will discuss later—although there was a serious concern that some applicants were supplying false information in order to meet eligibility criteria or to receive higher awards than they deserved, there had been no effective procedure for verifying the information supplied on the grant application form prior to awards being made.

In my view, these problems can be directly traced to a sorry history of inept management that extends over the last decade and perhaps beyond.

For example:

First, despite the fact that there was a backlog of well over 300,000 defaulted guaranteed student loans, there were only 100 Federal collections personnel—professional and clerical—spread across 10 regions.

Second, we found that in some regions the names of defaulted borrowers were maintained—in this the age of computers—on 3 by 5 index cards, and that records on literally thousands of collection cases were stacked unsystematically in cardboard boxes.

Third, we found that, in the campus-based NDSL program, the method used for calculating default rates at institutions of higher education vastly understated the true rate of default.

Fourth, we found that the administration of the student financial assistance programs was fragmented among 3 different offices in 2 different bureaus in the Office of Education and that there was little, if any, management of the 10 regional offices by headquarters in Washington.

Fifth, we found special problems with proprietary schools, problems that had not been addressed in a systematic way:

One, mass recruiting of ineligible students and false representation of their eligibility;

Two, "phantom students"—institutions falsely representing that students attended a full course of instruction when, in fact, the students dropped out or never attended;

Three, conversion of unearned student grant and loan funds to the school operating accounts and capital expeditures, as well as to the personal use of school officials;

Four, a backlog of cases of alleged fraud in the guaranteed student loan program, primarily at proprietary schools, equal to 3 years of work for the available HEW investigative staff;

And, five, failure to make refunds to students or the Federal Government when students withdrew. I should note that this problem involving refunds, while acute, is not limited to proprietary institutions.

I turn now to the vigorous actions we have taken to correct these and other problems.

In March 1977, we consolidated the six student financial assistance programs administered by the Office of Education into a single bureau, and totally rearranged the relationship between headquarters and the regions.

By summer, after a thorough, careful personnel search—considering over 50 candidates and interviewing perhaps a half dozen—we found the appropriate financial officer to head the new Bureau—Leo Kornfeld, a computer systems expert who was experienced in helping educational institutions solve management problems.

I turn now to the basic educational opportunity grant program.

The Office of Education instituted a new computer screening program to detect and reject those applications which are incomplete or contain inconsistent information. As noted, about 30 percent of the 2.7 million applications received so far this year were sent back to students who were required to provide additional information before their applications were processed. This amounted to approximately 800,000 applications returned for additional work by applicants, although the required changes will, in many instances, be relatively inconsequential.

We have also begun an annual selection of 200,000 applications that will receive intensive scrutiny—the majority chosen because they contain questionable items, and some chosen at random. Students will be required to substantiate the information they have provided in much the same way as a tax return selected for an audit by the IRS is verified.

At the same time, we have reduced and simplified the paperwork required to obtain a BEOG award. So far this year, 70 percent of the applicants did not have to fill out a duplicative Federal form. Previously, applicants were required to provide the same information on both a BEOG application and applications for other assistance.

I turn now to the guaranteed student loan program.

We have installed a computerized billing system in all regions. We have mailed billing letters to all defaulters whose addresses we have. As I indicated, we moved on the oldest first because of our concern about the statute of limitations.

Operation Cross-Check was begun. As I mentioned earlier, this project involves a computer match of the Federal Government's civilian payroll against the federally insured student loan default file.

There are three phases to Operation Cross-Check.

Phase I involved approximately 144,000 HEW employees. These numbers are current as of the end of last week. There were 317 raw matches of HEW employees in default. Upon investigation we found that 95 were no longer employed at HEW, and these cases are now being handled through the regular collection process. Of the remaining 222, as of this week, 115 are now making repayments or have agreed to repay; 24 have paid in full or had obligations of $25 or less written off; 47 are in litigation or referred for litigation; 24 cases have been closed because of death, disability, or bankruptcy; 7 are in suspense until problems with their schools can be resolved as to whether or not the school actually gave them courses; and 5 are still under investigation.

I turn now to phase II, which involved approximately 2.65 million Federal civilian employees. There were 6,600 raw matches, excluding those found in the HEW match. As of this week, 540 are now making payments or have agreed to repay; 353 have paid in full or had obligations of $25 or less written off; 32 are in litigation or were referred to litigation; 69 cases have been closed because of death, disability, or bankruptcy; and 5,606 have been contacted and followup actions are continuing.

In the near future we intend to implement phase III, which will involve over 2 million Federal military personnel.

As noted, we have dramatically accelerated referrals of civil cases to U.S. attorneys.

We published proposed regulations specifically defining lender "due diligence" requirements. "Due diligence" refers to actions lenders must take to follow up with borrowers to insure that they meet their loan obligations. Such actions include maintaining current address records and frequent and timely billing.

I turn now to the national direct student loan program.

Mr. FOUNTAIN. How are you getting along with cooperation with the military in getting that information?

Mr. CALIFANO. We have the full cooperation of the Department of Defense.

Yesterday, I talked with Mr. McIntyre at the Office of Management and Budget who agreed to clear the match. OMB is trying to establish guidelines for the computer cross-checking that we do. He indicated to me yesterday that he would give us a go-ahead to begin. In accordance with the proposed OMB guidelines, we will then publish a systems notice and the Department of Defense will publish a "Routine Use" in the Federal Register. These notices will indicate that HEW will run the Department of Defense's payroll taxes against the guaranteed student loan default file.

It will take approximately 8 weeks before we are able to run the third phase, which involves the military personnel.

Mr. FOUNTAIN. Thank you.

Go right ahead.

Mr. CALIFANO. With reference to the national direct student loan program, in March 1978, I sent a letter to the presidents of all participating schools, urging them to improve the administration of their programs and to comply with the requirements for following up on defaulted loans.

In April, the Office of Education contacted schools in the title III, developing institutions program with high default rates, offering them technical assistance and encouraging them to use their title III funds to improve student financial aid administration.

The Office of Education announced in April that it will accept defaulted loans assigned to it by educational institutions. Although the authority for such assignments was contained in the Education Amendments of 1972, this was the first action taken by the Federal

Government to implement these provisions. To date, requests for approximately 100,000 loan assignment forms have been received from almost 500 institutions.

In addition, we have undertaken several major efforts that cut across all programs.

One: Proposed regulations have just been signed under which all institutions entering student assistance programs will be reviewed for the adequacy of administrative and fiscal standards before they are allowed to participate, and all institutions currently in the programs will be reviewed over a 3-year period. If participating institutions fail to live up to these requirements, we will take appropriate action to limit, suspend, or terminate their participation in the program. These regulations were based on legislation passed by the Congress in 1976.

Two: The Office of Education has begun systematic onsite program reviews at selected institutions where the student default rates are above average or where other problems have been indicated. In the last 6 months alone, 68 institutional reviews have resulted in identification of $6 million owed the Federal Government.

If that money is current year appropriation money, we are simply deducting it from future entitlements to get our money back immediately. If it is past appropriation money, we are trying to get it from the institutions. If necessary, we will deduct these funds from future allocations. We refer cases involving criminal violations to the Justice Department.

Three: All institutions participating in student assistance programs will be required to have an independent audit at least every 2 years. This means that the 1,000 independent audits each year that are currently conducted will increase to 4,000 per year—a fourfold increase in auditing activity.

This combination of certifications, program reviews and audits—while it may seem mundane—is perhaps the most important systematic thing we can do to bring accountability and integrity to these programs.

Four: In addition, we have issued regulations which require institutions to make available to students information on assistance programs, and on the rights and responsibilities of all parties under those programs. We have also published for the first time the Student Guide to emphasize these rights and obligations.

As I mentioned earlier, these changes have resulted in some important improvements, especially in the GSL program.

From January 1977, the backlog of defaulted federally insured loans grew from over 300,000 to slightly more than 400,000 in May of this year. This growth now appears to have peaked. By the end of June, the default backlog had dropped to 374,000; and by the middle of July, to 366,000.

With the approval by the Congress of our request to increase Federal collections staff, we hope to prevent further increases and continue to decrease the backlog. This decline is attributable to our sharply accelerated loan collection efforts, as well as our handling the easier accounts first and our closing out accounts which are no longer collectable. We expect the default rate in federally insured loans to drop below 12 percent by the end of this fiscal year.

I might note, Mr. Chairman, that I try to visit our regional offices at least once a year. In the last two or three I have visited, I have discussed these programs. The fact that the Government is taking these actions now has substantially inceased the morale of the people in the Bureau of Student Financial Assistance in the Office of Education. They feel as though these programs are now better managed. They feel as though they are fulfilling their obligation to the taxpayer in a much more significant way than they have in the past.

Mr. **Fountain**. What about responsible people in the regional offices, and elsewhere, who have for so long been so negligent and inefficient? What has happened to them?

Mr. **Califano**. As I said, I think their morale is enhanced. I think they are going to work on this. I think they have never had a sense of direction from Washington. I think they have one now.

We have a program in the Department called major initiatives tracking system. We have set goals for every regional office. They have goals of loans that are in default they have to collect and cases that they have to handle.

In terms of what has happened in the past, as you indicated, I do not think this is a partisan problem. It has been a problem of phenomenally inept administration. Some of these programs began in 1958. This has gone on for years and years and years.

In the campus-based national direct student loan program—where primary responsibility for administering the program rests with educational institutions—we do not expect to see substantial results until next year.

I turn now to new initiatives.

In addition to the steps we have taken during the past year, we are also planning to implement new initiatives in the coming months to insure integrity and accountability in the Federal student assistance programs.

To insure integrity in the BEOG program, we have just completed a number of new computer matches to determine whether information supplied on BEOG applications is complete and accurate and to eliminate overpayments to ineligible students. As I indicated, this, in large measure, was suggested by you and your staff.

We have undertaken a computer screening process to detect individuals who attempt to obtain illegal multiple grants under the BEOG program. In a recent match of the social security numbers of 2 million 1976-77 BEOG recipients, approximately 30,000 students appear to have received more than one BEOG grant.

In a match of addresses from a sample of 310,000 BEOG applicants for 1977-78, in 11,000 cases, more than 1 student appears to have been listed at the same address. While in many of these instances, these duplications may be legitimate, we shall investigate our findings and take whatever corrective action is necessary.

Starting with next year's BEOG applications, we will incorporate these matches into our routine processing procedures.

We have also matched the 1977-78 BEOG applications with students receiving VA benefits.

Mr. **Fountain**. We will have to take a short recess to cast a vote on a very important resolution to some Members of Congress. That is the August recess resolution. [Laughter.]

The subcommittee stands in recess for 8 or 10 minutes.

[Recess taken.]

Mr. **Fountain**. The subcommittee will resume.

You may continue, Mr. Secretary.

Mr. **Califano**. Mr. Chairman, I was speaking of the BEOG program and the computer matches.

We have matched 1977-78 BEOG applications with students receiving VA benefits. Our preliminary results indicate that of approximately 159,000 BEOG applicants that have received VA student benefits, almost 19,000 may have failed to report their VA benefits this year, although they are required to do so.

We have matched beneficiaries of title II under social security—which includes student assistance—with BEOG applicants to assure that SSA benefits are counted in determining the size of the grants that go to these individuals. Here, preliminary and tentative results show that, of approximately 600,000 BEOG applicants for 1977-78 who received title II benefits, 113,833 may have wrongfully failed to report them.

Mr. **Fountain**. Are they required by law to report them?

Mr. **Califano**. Yes, they are.

We have matched AFDC recipient lists with BEOG applications in 22 jurisdictions to make certain that benefits received under AFDC are calculated in determining the size of a BEOG grant. Of the 76,668 names which appeared on both files, 19,704 apparently did not report receiving AFDC benefits in the prior year.

It should, of course, be noted that the mere receipt of unreported VA, social security, or AFDC benefits does not necessarily mean that the recipient was ineligible for a BEOG grant, nor even that the grant should have been smaller.

Finally, we have matched GSL defaulters with this year's 1.6 million BEOG recipients to begin determining whether students who are in default on a federally insured loan are receiving a BEOG.

We found a total of 8,560 raw matches, of which 356 appear to have received their BEOG at the same school where they defaulted on their loan. Under current statute and regulation, only those BEOG recipients who receive their grants at the same school where they defaulted on their loans are prevented from receiving a BEOG.

We recommend that this loophole be closed with respect to different schools.

Mr. **Fountain**. Would that have to be done by statute?

Mr. **Califano**. Yes, Mr. Chairman.

As I indicated with reference to the recipients of multiple BEOG's we shall be following up on each of these matches to recover any overpayments. Most important, we intend to incorporate these matching procedures into each year's BEOG application process.

To insure integrity in the guaranteed student loan program, within the next 60 days, we will award contracts for collection agencies in two regions as an experiment to determine whether private agencies can be more effective in collecting defaulted loans than Federal employees. This experiment will also allow us to determine whether or not private agencies can function in this capacity with due regard for civil liberties and privacy rights. This effort, coupled with the approval to employ additional Federal collectors, should enable us to eliminate the 10-year backlog of unworked federally insured loan defaults within the next 3 years.

To insure the integrity of these programs at proprietary schools, I have ordered the Inspector General of HEW to take the lead in a systematic effort to prevent and reduce fraud and abuse by these schools. The first stage of this effort will focus on an industry which constitutes the largest number of proprietary schools participating in student assistance programs—the cosmetology or beauty school industry.

Once we have established a reliable methodology for identifying fraud-prone institutions, we will expand our cleanup to other types of problem institutions.

Currently, 127 potential criminal cases are under active investigation, 53 involve institutions.

To insure accountability in these programs, I have asked the Assistant Secretary for Education, the Commissioner of Education, the Inspector General, and other Department officials to conduct a series of face-to-face meetings with the presidents and chief fiscal officers of institutions participating in student assistance programs. These meeting will focus on the need for personal involvement of institution presidents in the improvement of these programs, and on providing practical guidance on new HEW procedures and requirements.

We shall be conducting special training programs for proprietary schools and developing institutions during the upcoming academic year to deal with their own unique problems.

Specific workshops at the National Conference on Fraud, Abuse, and Error, which the Department is sponsoring in December, will supplement these efforts. Mr. Chairman, I hope that if you are in town this December, you will be one of the speakers at that conference.

We are developing a three-point program to insure that no recipient of Federal student financial aid receives more than 100 percent of his or her actual educational costs.

One: We will work with other relevant agencies to develop an overall policy for coordinating benefits for educational purposes from various Federal sources so that the student's need is met, but not exceeded. Mr. Chairman, there are 55 student assistance programs outside of HEW, in addition to the many student assistance programs in HEW. That is why that coordination is needed.

Two: We will work with the States and educational institutions to determine ways of integrating and coordinating aid from these sources with Federal benefits. This is something that is very important, as your staff knows. For example, in New York part of the problem with respect to higher education institutions is their TAP program, which is not coordinated with our BEOG's program at the present time.

Three: We will work with the higher education institutions to enhance the status and quality of student financial aid officers.

These individuals are the point at which all the information relating to a student's financial needs, educational costs, and Federal, State and institutional resources come together. We have earmarked $400,000 of our recently approved fiscal year 1978 reprograming request for increased training of institutional student financial aid officers.

And, to increase accountability in the NDSL program, we are exploring means to establish incentives for institutions to improve their rate of collection of defaulted loans. We intend to directly relate the amount of new Federal capital contribution an institution receives to its improvement in the collection of its backlog of defaulted student loans and the reduction of its current default rate. Those institutions which do not perform well will receive a reduced allocation of these funds.

I want to point out that institutions will not be penalized for past ineffectiveness, because we recognize that his problem is due, in part, to the failure of this Department to promulgate and enforce its own regulations.

In addition, we will take steps to assure that alternative sources of loan funds are available so that no student who attends an institution that is penalized for inadequate administration will suffer because of insufficient NDSL loan funds.

We must remember that in the vast majority of cases, it is not the student who is at fault in this program; it is the institution.

Mr. Chairman, the Federal student assistance programs are of great value to tens of millions of our citizens. As we ask Congress to continue and expand student assistance, we must demonstrate that the programs can be operated with an absolute minimum of fraud, abuse, and error.

We are, thus, intent on markedly improving the administration of these programs—by the Federal Government and by the institutions involved.

Indeed, our efforts in these student assistance programs are part of our larger, departmentwide effort to meet our target of reducing $1.1 billion in fraud, abuse, and waste during fiscal year 1979.

We recognize that we face problems that have been unattended in previous years. However, I believe that with the steps we have taken to date, with the actions I have announced today, and with the help of this subcommittee in identifying other problem areas, we can make significant progress in restoring integrity and accountability to our student financial assistance programs—progress that will show even more dramatic results over the next 12 to 18 months.

Despite their problems, these programs have appropriately served millions of this Nation's young. I believe they offer, by far, the best method for providing Federal assistance to middle and lower income students.

And, I am confident that when we begin to implement the President's middle-income student assistance initiative in school year 1979-80—which, after congressional approval, would add significant new funds to the BEOG, work study, and GSL programs—we will have restored sound, responsible management to our vital national effort to help students obtain the incalculable benefits of higher education.

This subcommittee and the taxpayers of this Nation have my ironclad promise that the deficiencies in these student aid programs will be eradicated.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. We thank you, Mr. Secretary, for your very meaningful and informative statement and for your commitment, to which we will hold you. [Laughter.]

Mr. CALIFANO. I know that.

Mr. FOUNTAIN. I would like to mention the attachment to your testimony, which I think is extremely important—as important as your testimony. It has been made a part of the record, because it deals not only with the problems faced on January 20, 1977, but with a number of other items, including the specific actions taken since that date.

This is a general question, but I want to ask it because I think it can give an indication of the total picture. How many grant-in-aid programs do you have jurisdiction over?

Mr. CALIFANO. In HEW?

Mr. FOUNTAIN. Yes.

Mr. CALIFANO. We probably have almost 400 grant-in-aid programs, departmentwide that are legislatively authorized. Some of the legislation is broad and has been broken down within the Department to other programs, so we probably have several hundred more as you get down into the different categories.

Mr. FOUNTAIN. I am sure you are having similar problems in many other programs. Are you taking similar action with respect to all these other programs to the end that inefficiency, waste, extravagance, fraud, and things of that kind can be controlled?

Mr. CALIFANO. We are. As you noted a very important point in your opening statement, our ability to do things varies widely with the kind of program. For example, the supplemental security income program with cash payments for the blind, aged, and disabled is now run by the Federal Government totally. We have been able, since January 1977, to drive the error rate in that program down from—as I recall—6.3 percent to 4.6 percent.

The AFDC welfare program—aid to families with dependent children—is run on a statewide basis, sometimes by counties. We have much less control over that and we have had much less effect on the error rate in that program. In the last period, the error rate went up from 8.5 percent to 8.6 percent, which is not statistically significant.

As you mentioned, there are problems out in the field as well as in Washington. But we are trying to move in all those areas.

We are using, I might add, computer techniques widely in those areas. I think with programs as large as some of the programs we have, that is the way, at least in the first instance, to clear out a layer of waste rapidly.

We have used computer matching techniques in connection with the number of Federal employees on welfare, for example. We have urged States to use it with their State payrolls and welfare. They have proved very productive to us.

Mr. FOUNTAIN. Were any of those techniques being used before you arrived?

Mr. CALIFANO. No, Mr. Chairman.

Mr. FOUNTAIN. In your statement, you indicate that you collected $4.5 million on defaulted guaranteed student loans during the quarter ended June 30, 1978, which was twice the amount collected during the same quarter in 1977. Approximately how much did you pay out in new default claims during the same period?

Mr. CALIFANO. I do not know.

Mr. FOUNTAIN. Do you have a ballpark figure? If you do not, you can supply it for the record.

Mr. CALIFANO. I think we had better supply it for the record.

Mr. FOUNTAIN. Without objection, so ordered.

[Material referred to follows:]

During the quarter ending June 30, 1978, default obligations amounted to $32.1 million.

Mr. CALIFANO. As I noted, we think in the GSL program the backlog of defaults is paid. We are now, in effect, collecting more than new defaults. That is on the basis of the experience of the last couple of months of evidence. We peaked at about 400,000, and that has been coming down for the last couple of months.

The extent to which that reflects closing out easier, older cases is something we are not sure of yet. We have been limited in our ability to do this, until last week, when the Congress approved our reprograming of funds so that we could hire more collections personnel. We should be much more successful in dealing with the GSL program as a result of the congressional approval we got this week.

Mr. FOUNTAIN. Your statement further indicates that under the previous management there was a backlog of over 300,000 defaulted guaranteed student loans and only 100 Federal collections personnel.

What is the current backlog, and how many people do you have working on collections?

Mr. CALIFANO. Mr. Chairman, the current backlog at the middle of July is 366,000. But to explain that, I would have to note that the 300,000 backlog we had in January 1977 went up to 400,000 in May of this year.

Since May we have been reducing the backlog. We reduced it to 374,000 by the end of June and 366,000 by the end of July.

I do not want to state categorically, however, that we will continue to drive that backlog down that fast because we may be taking easier and older cases. That is why it may be going down so fast.

We now have about 200 collection personnel and we also have some part-time personnel. I would also note that the personnel we intend to hire with the reprograming money are term personnel, so they will not add to the permanent workforce on the Federal payroll. Once we get the default problem reduced and under control, we should not need as many people to deal with it.

Mr. FOUNTAIN. If you will supply that specifically for the record, we would appreciate it.

Without objection, so ordered.

[The following statement was subsequently furnished:]

We anticipate that we can eliminate the backlog of unworked federally insured defaulted student loan accounts over the next 3 years. We are increasing our nonpermanent staff in fiscal year 1978 and fiscal year 1979 to achieve this goal. We believe that the current number of permanent personnel will be able to handle collections problems in the guaranteed student loan program by the end of 1981.

Mr. FOUNTAIN. In September 1977, HEW announced that it planned to turn over collection of defaulted student loans to private collection agencies. However, this plan was not carried out. Can you give us details concerning the reasons why HEW did not go ahead with its 1977 plans?

Mr. **CALIFANO**. Mr. Chairman, we had the discussions within the Government and with OMB relating to the extent to which we could increase the number of Federal personnel for collection efforts. Their desire, as always, is to hold down the ceiling on the number of employees. Therefore, we agreed to reconsider our approach and incorporate the use of private collection agencies into our plan.

Second, there was concern about the privacy of individuals and about giving to a private collection agency, in effect, the power of the Government to collect. We wanted to make sure we did that in a careful way.

We ended up deciding to test using private collection firms in the two regions I mentioned. We will get this underway in these regions in the next 60 days.

Mr. **FOUNTAIN**. I wondered if possibly there were problems because of the Privacy Act?

Is there a statute of limitations applicable to the collection of defaulted student loans? If so, how long is it?

Mr. **CALIFANO**. My lawyers tell me that the Federal statute of limitations applicable to student loans is 6 years.

Mr. **FOUNTAIN**. Are you barred now from collecting any defaulted loans? If so, how many?

Mr. **CALIFANO**. I cannot give you an exact number, Mr. Chairman. I think we could supply information for the record of how many loans have been lost over the past several years because of the statute of limitations.

[The following statement was subsequently provided:]

The statute of limitations covering defaulted loans under the guaranteed student loan is 6 years. As of September 1977, 9,672 defaulted loans (3.6 percent of the total defaulted loans) were technically "lost" because of the statute of limitations. However, we continue all collection effort beyond this six year period until the borrower repays or we determine that the debt is uncollectible. Collection efforts cease only when the borrower officially asserts the defense under the statute of limitations. Collection efforts include the obtaining from the borrower a written reaffirmation of the debt. Although we do have records on individual defaulters, we do not have a compilation of records showing the status of accounts 6 or more years old. The U.S. attorneys will not accept these debts for litigation.

Mr. **FOUNTAIN**. Is it safe to say there is a danger that the statute may run before you can collect some of the loans in your present backlog?

Mr. **CALIFANO**. I think it is fair to say that, Mr. Chairman, because our experience has been that the further back we go the more changes of addresses there are and the harder it is to find the people and find out where they are living.

Mr. **FOUNTAIN**. I have many other questions, but I am going to yield at this time to other members for 5 minutes each. Then I will come back to you.

Mr. Cunningham?

Mr. **CUNNINGHAM**. Thank you, Mr. Chairman.

Mr. Secretary, I have some questions which I have given to the staff. I would like to have them answered in writing. I think it would be easier.

**Mr. Fountain.** Without objection, so ordered.

[Mr. Cunningham's questions and the answers thereto appear with other minority questions in app. 3.]

**Mr. Cunningham.** Is it not true that a person could be asked to sign a waiver of the statute of limitations in order to avoid immediate legal action?

**Mr. Califano.** Certainly.

**Mr. Cunningham.** Has there been any attempt to implement that waiving of the limitations?

**Mr. Califano.** No, there has not been. It is a good idea. I will ask the Justice Department to do that.

It has only been recently, as you can see from the numbers I put in my statement, that the Justice Department has become interested in prosecuting these cases. I talked with Attorney General Bell a few months ago. He has moved to urge his attorneys to try them.

But I think your idea is a good one. We will adopt it.

**Mr. Fountain.** I think that is an excellent idea because that is one of the things that IRS does all the time. I do not know of anyone who turns them down. [Laughter.]

**Mr. Cunningham.** I know it is a goal to recover $2 billion in defaulted loans. I, for one, and I know other members want to give you the tools necessary.

The other thing is this. Is it not possible in the application for the loan—both through the institution and through a bank—to include the individual's waiving of the privacy right so as to permit IRS to give you a match-up at a later date? Has that been considered?

**Mr. Califano.** Right now under legislation that has been passed, we get from the IRS the name and the address of the borrower. The privacy area is a sensitive area. I would rather provide an answer to the privacy question to the record.

[The following information was subsequently provided:]

The Internal Revenue Service, under the authority of 26 U.S.C. 6103(m)(2), already provides address information to the Office of Education in cases where the borrower has defaulted on the loan. Therefore, no waiver is necessary to enable the Office of Education to obtain a defaulter's mailing address from the IRS. However, that statute provides that the address information may be provided by the Internal Revenue Service only to "officers and employees" of a Federal agency, and solely for their use. The Internal Revenue Service has interpreted this statute as precluding the disclosure of its address information by the Office of Education to persons outside the Government for collection purposes.

The Privacy Act would not be a bar to disclosure of address information outside the Government for collection purposes. That Act permits such disclosure for a "routine use," meaning a purpose compatible with the purpose for which the information was collected. We have published a "routine use" in the Federal Register covering this type of disclosure of information, and the guaranteed student loan application clearly indicates that disclosure will be made if necessary to collect on a loan. We now disclose the information if it is received from a source other than the Internal Revenue Service.

**Mr. Cunningham.** One of the things you did not touch on in your very fine statement is the developing institutions, which is something under title III of the Higher Education Act.

I am wondering if you can given me a fairly precise definition of a developing institution as you see it under title III of the Higher Education Act.

Mr. CALIFANO. I did. There is a brief mention of the title III program in my statement. I indicated that we are providing technical assistance to those title III developing institutions with high default rates to try to help them put together an administrative apparatus that will deal with this problem.

The law defines the developing institution as one that has financial difficulties and is out of the mainstream of education, so to speak. It also authorizes grants for us to help them improve their administration and curriculum.

We are looking at title III in connection with the reauthorization program.

Mr. CUNNINGHAM. Mr. Secretary, I understand there is presently a GAO report which has yet to be published that you are aware of, that you have at HEW, that is very critical regarding the implementation of this title III program.

What can you tell us about that? When will that report be released?

Mr. CALIFANO. The General Accounting Office would have to tell you when that report would be released.

Let me say generally that I got into the title III program in depth only a few months ago in connection with problems at two particular institutions.

I have serious questions about the way in which that program has been administered. We are undertaking a review of the program, which has given out three quarters of a billion dollars over the last 10 or 12 years. It has a $110 million authorization and it is funded fully.

We are reviewing the program and are reviewing the standards under which those grants have been made. We are also looking at institutions that seem to have particular problems that are within the title III program.

Mr. CUNNINGHAM. But you have not seen the report yourself?

Mr. CALIFANO. I have read a lot of material on the title III program. I just do not have a personal recollection of reading that GAO report, although I may have read a summary of it.

Mr. CUNNINGHAM. I have just one final question on the guaranteed student loans that are made through banks. It could be applied to even those that are made through the institutions themselves.

Why is there no attempt made, (1) to run a credit check, and (2) to suggest a cosigner? In your own statement you say the students often do not consider these real loans or see the need to pay them back. Within the private sector, that certainly is considered a prudent management decision. Is there a tendency to move toward that?

Mr. CALIFANO. I think the way the statute is written for the guaranteed student loan program, the test is need and not a credit rating or anything else. That is why we do not run those kinds of checks.

Mr. CUNNINGHAM. I am talking about what is put through a bank. If that is true, why have banks involved? Why not just mail them their money?

Mr. CALIFANO. We guarantee those loans for the banks. The banks make those loans on the basis of need. That is the way the Congress has written the GSL program.

I suppost the theory is that it provides funds for the education of the student and enhances the student's earning power. When the student gets out of college he should be able to pay back the loan.

Mr. CUNNINGHAM. I guess I just do not understand about going to that length with a bank. I do not see what is wrong with asking a bank to run a credit check. I just do not understand that.

Mr. CALIFANO. By the very nature of the people who are eligible for these programs, in most cases they probably would not be eligible if they were subjected to the ordinary credit standards that you or I would be subjected to if we went into the bank to get a loan.

Mr. CUNNINGHAM. But do you not think that would add a little more credibility to the process of seeking the help and proving that it is a real loan and not a "tooth fairy" grant?

Mr. CALIFANO. We are trying to drive home the point to the students that these are loans. We are changing our own information systems. We are asking the schools to change their information systems. We are trying to get the banks to provide a little different kind of information. I think we will.

But it is a loan program for individuals who are 17, 18, 19, 20, or 21 years old, most of whom have no income at all and most of whom would not survive any kind of credit check.

Mr. CUNNINGHAM. I am not suggesting they have to survive, but I mean that it is not even done. They are not even asked to give any references. They are not even asked if they can get a cosigner. It is almost a revolving door for free money. It is the taxpayers who are suggesting that they are getting tired of it.

Mr. CALIFANO. As we begin collecting these loans, we will get that money back. Remember, 87 percent of students pay these loans back. We are talking about the 13 percent who do not. I believe you will have to make changes in the leglislation to institute some of the procedures which you suggest and are questioning here.

Mr. CUNNINGHAM. Unless I am mistaken, Mr. Chairman, one of the purposes of these hearings is to decide if we are indeed going to make changes in the legislation.

Mr. FOUNTAIN. We can certainly recommend legislation changes to the appropriate committee.

Mr. CUNNINGHAM. I have no other questions, but I would like permission from the committee, through its staff, to have these additional questions responded to in writing.

Mr. FOUNTAIN. The Secretary will supply the responses for the record.

Mr. CALIFANO. Yes, Mr. Chairman.

[The questions and answers appear in app. 3.]

Mr. FOUNTAIN. How long a period of time do the students have to pay back the loan following their graduation?

Mr. CALIFANO. The maximum repayment period is 10 years, Mr. Chairman. There are also exceptions. If they are unemployed, they may have the loan payment deferred.

Mr. FOUNTAIN. What you are finding out is that many of these people are in good shape and are affluent and have not paid back their loans. They seem to have no sense of obligation.

Is it not, therefore, important, that a greater effort be made to determine whether or not the need is actually there before the guarantee is made?

Mr. CALIFANO. Mr. Chairman, we are looking at every aspect of these programs. At this point in time, I cannot answer your question with certainty. What you say may be correct, but we have not looked at that in enough depth.

Mr. FOUNTAIN. It seems to me that the banks could really be of assistance in that sort of thing. Down my way, they know just about every family and they know what everybody's situation is. [Laughter.]

Mr. NAUGHTON. I wonder if the banks are not required to make a determination of need before the loan is granted?

Mr. CALIFANO. The institutions do that, Mr. Naughton.

Mr. FOUNTAIN. Mr. Levitas?

Mr. LEVITAS. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for an excellent statement. The statement you made, together with the attachment, is one of the most detailed, comprehensive and to-the-point statements I have seen. I commend you on it.

In addition to that, I would like to make special note of the fact that you and your Department have, in my judgment, very sincerely and with a real sense of purpose, gone after this problem of waste, fraud, and abuse, and have made great strides.

I think you are setting a standard for other agencies in Government to follow in your utilization of the Inspector General. Your implementation of this new legislation is commendable.

In that connection, I would like to ask this. On page 30 of your prepared testimony, you say that your efforts in the student assistance programs are part of your larger departmentwide effort to meet your target of reducing $1.1 billion in fraud, abuse, and waste during fiscal year 1979.

It is my recollection that the last report we received from the HEW Inspector General indicated that somewhere between $6 billion and $7 billion were involved in the total categories of fraud, abuse, and waste.

Is not $1.1 billion too modest a goal?

Mr. CALIFANO. Let me explain that goal which was set by myself, the Inspector General, and our Assistant Secretary for Management and Budget.

The number in the Inspector General's report has now been revised to about $6 billion. It is the first time that a study like that was done, thus it has all the caveats that one can expect with a first time effort.

Elimination of much of the waste that we have identified requires legislative action, particularly in the medicare and medicaid programs. About $4 billion of the amount of money that is in that $6 billion comes out of those two programs. Almost all of the corrective action in those programs will require legislative changes.

Mr. LEVITAS. Have you submitted those legislative proposals?

Mr. CALIFANO. We have, but with mixed difficulty. Hospital cost containment, for example, is one. We are paying, through those programs, for the depreciation on excess hospital beds in this country.

This $1.1 billion is the maximum we thought we could do within our existing administrative authority. I would be pleased to submit, for the record—if the Inspector General has not already submitted them to this subcommittee—our breakdown of those numbers into what we can do administratively and what we would like to have done through new legislation and what actions will require more staff.

Mr. LEVITAS. I would be very interested in seeing that.

I think you make a very important point and one which is not generally understood by the public.

What you are saying is that under your existing legislative authority, it is your assessment—and we will receive the figures—that the optimum that could be obtained by way of a reduction in these categories of waste would be $1.1 billion.

You need additional legislative mandates or a charter of personnel in order to deal with the remaining $4.5 or $5 billion?

Mr. CALIFANO. That is correct.

Mr. FOUNTAIN. Will you supply us with that breakdown?

Mr. CALIFANO. Yes, we will do that.

Mr. FOUNTAIN. Without objection, so ordered.

[The material provided appears in app. 4.]

Mr. CALIFANO. I would also note that the $1.1 billion reduction is the first year. I would hope we could increase that figure in 1980 and so on.

Mr. LEVITAS. I think this is important. I frequently tend to place responsibility and criticism on the agencies and the bureaucracies. I think it is also fair for you to say to us that we in Congress need to do some things about this as well. That is why I commend you for the cooperative statement you make on page 31 pointing out that the actions you need to take can be assisted by the help of this subcommittee. The relationship can be cooperative and not necessarily adversary.

I have one final point before I go into my specific questions.

I notice that you talk about the implementation of the President's middle income student assistance program. I would not go out and spend that money yet because it still has a long way to go.

I personally favor the tuition tax credit approach, but I am sure you have taken some comfort from the recently released survey by the Roper organization just yesterday which showed that nationwide—I think it is different in my congressional district—but nationwide the public seems to support that program, that is, the one proposed by the administration in preference to tuition tax credits.

If you have not seen that Roper survey, even though I support the other program, I urge you to make note of it very shortly.

Mr. CALIFANO. I not only will make a note of it, but I may use it a little. [Laughter.]

Mr. LEVITAS. Let me turn to some specific questions.

Mr. FOUNTAIN. Before you do that, would the gentleman yield?

I wish you would also submit any recommendations or ideas you have as to what kinds of legislation are necessary even though you

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may not have reached the stage where you can recommend specific language. Maybe some of us can find a way to come up with some language to help you move along.

Mr. **Califano**. That is fine.

Mr. **Fountain**. Without objection, so ordered.

[The following statement was subsequently provided:]

We are reviewing all aspects of student aid programs as part of our preparation for reauthorization of the Higher Education Act. However, there are a number of areas, which have been brought to our attention in preparing for this reauthorization, where more immediate action may be desirable.

We should point out that these kinds of proposals have not yet been clearly defined and we are not yet prepared to make specific legislative recommendations; but, we are reviewing the desirability of legislation of the following areas:

1. Prohibiting students who have defaulted on student loans or who owe a refund on a Federal grant from receiving additional Federal student aid support regardless of where they are currently enrolled.
2. Insuring that institutions establish reasonable and meaningful standards of academic progress.
3. Insuring that students do not receive Federal funds to which they are not entitled, by providing authority for the Office of Education to have access to specific relevant information on records kept by other agencies.

This is not intended to be an all inclusive list. Many areas which are of mutual concern to us (such as accreditation and completion rates) are being addressed through the reauthorization effort.

Mr. **Fountain**. If we can get the legislative committees to listen—although sometimes they do not pay much attention to our investigations—it would be helpful.

Mr. **Califano**. Let me say that your work has had a substantial impact on my administration of HEW. I think if every committee in the Congress were as interested in these management, waste, and abuse problems as this committee is, a lot of the departments would be a lot better run.

Mr. **Levitas**. Mr. Secretary, in your testimony, you identify the different programs in the student assistance area. You indicate that they have varying default rates. I believe it is 13 percent in the guaranteed student loan rate; 20 percent, if I recollect, in the direct loan program.

I have two questions in connection with that.

The first is this. To what do you attribute the 7 percentile point differential in one program as compared to the other? Second, is there any basis for comparing these default rates to other loans made generally to low income consumers?

Mr. **Califano**. I attribute the difference to the fact that the GSL program is essentially much more a banker's program with an institution lending money that is accustomed to lending money. We guarantee the loans and they have a lower rate.

The NDSL program is campus-based with the colleges and schools and proprietary schools getting the money and then lending and collecting the money themselves. They are not accustomed to doing that. That is not an area in which they have been pressed to develop administrative expertise, as we are now pressing them to do so.

I think that is why there is a higher default rate in the NDSL program.

Mr. **Levitas**. What about the comparability to other loans made?

Mr. **Califano**. I think since all these loans are essentially based on need, it is hard to compare them with an ordinary loan which you and I would apply.

But I would note, as I mentioned in my testimony, more than 1,000 of the 3,400 institutions that are in the NDSL program had default rates under 10 percent. That includes all kinds of institutions. So, it is clear to me that the job can be done. It just has not been done. We can bring those default rates down.

Mr. **Cunningham**. Would the gentleman yield?

Mr. **Levitas**. I would be happy to yield.

Mr. **Cunningham**. I do not understand this, but in checking with some of the universities in our area, we find that they are reporting, exclusive of these Government loans, a write-off rate, a bad-debt rate, of less than 1 percent. Are you saying they do not have the incentive to protect the taxpayer's money as much as they do their own?

Mr. **Califano**. Just by human nature I think there is bound to be a difference between the attitude of somebody who goes out to collect their own money, if you will, and the attitude with which somebody goes out to collect somebody else's money, especially in a situation in which year after year we have replenished what was originally conceived of as a revolving fund—almost a self-sustaining revolving fund.

I would guess that what you are finding from the universities, colleges, or schools in your area is probably typical.

Mr. **Cunningham**. Then what is the incentive that a college has to collect the Government loans that they make?

Mr. **Califano**. We are trying to provide that incentive now. We have had authority since 1976, I believe, with respect to regulations to limit, suspend and terminate schools participating in these programs, and to determine the amount of money we give them to replenish their funds under the NDSL program. We have seldom used that authority in relation to their collection of defaulted loans or their collection of loans in preventing defaults. We intend, in the future, to relate their performance on these loan defaults to the amounts of the Federal contributions that they will receive for the NDSL program.

Mr. **Levitas**. Let me turn to the area of bankruptcy.

Of the defaulted loans, what percentage are ultimately discharged in bankruptcy?

Mr. **Califano**. A relatively small amount. I cannot give you a number. The only numbers we have here in my testimony relate to the HEW employees. It is really a handful.

Mr. **Levitas**. Could you supply the subcommittee with this information—that is, the percentage of defaulted loans which have been discharged in bankruptcy, the total number of student loans of any category which have been discharged in bankruptcy and the total amount of dollars involved?

Mr. **Califano**. We will.

Mr. **Fountain**. Without objection, so ordered.

[The following information was subsequently furnished:]

Bankruptcy claims filed and paid under the Guaranteed Student Loan Program are paid when they are "adjudicated" and the claiming lender later submits the "Certificate of Discharge" when the claim is discharged. We do not have data available which indicates how many claims are actually discharged, however, we are providing the number and total dollar amount of bankruptcy claims paid to lenders for fiscal years 1974-1977.

CUMULATIVE BANKRUPTCY CLAIMS PAID—COMBINED GUARANTEED STUDENT LOAN PROGRAM

| | Cumulative claims paid as of fiscal year— | | | |
|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 |
| Number | 8,000 | 12,000 | 20,000 | 26,000 |
| Amount (dollars in millions) | $11 | $19 | $31 | $42 |
| Percent of total claims paid | 0.4 | 0.4 | 0.5 | 0.5 |

[*] Guaranteed Agency Program and Federal Insured Student Loan Program.

We do not have data for the National Direct Student Loan Program on a yearly basis. However, the cumulative amount and number of students in bankruptcy as of June 30, 1977 is as follows:

| | |
|---|---|
| Total Amount | $24,712,000 |
| Principal | 22,345,000 |
| Interest | 2,367,000 |
| Number of Students | 28,200 |

Mr. LEVITAS. The reason I asked the question is that the perception is that the bankruptcy rate is much higher than that. In fact, I have heard amongst students that it is almost a way of life. You take out a loan, and you turn it into a grant by going into bankruptcy. You do not need it again for 6 or 7 years until you are out on your own.

So, I think it is very important for this subcommittee to have that breakdown.

Mr. FOUNTAIN. I hope it is grossly exaggerated.

Mr. CALIFANO. I think it is, Mr. Chairman.

I would also note that last year or a couple of years ago the Congress moved with respect to the GSL program to make it illegal to discharge these loans through bankruptcy during the first 5 years of repayment, except in extraordinary circumstances.

Mr. LEVITAS. Yes, I remember that. I had some difficulty on that particular issue because of what I perceived the problem to be at that time. I think it would be very helpful for this subcommittee to get this information in total amounts. If you want, you can break it down by years, but I would like to have the total amount.

I noticed that you emphasize, or will begin to place emphasis on the responsibility of the institutions involved in the collection of the loans. You emphasized that in the vast majority of cases it is not the student who is at fault, it is the institution.

Again, do you have any figures on this? Can you quantify or estimate the total amount involved and how you would break down the responsibility? Is it 60-40, 70-30, or what?

Mr. CALIFANO. That is very hard to do. I am not sure I could do that. The point I am trying to make is that institutions have not made students conscious of the loan. They have not made any attempt to collect loans from students in many situations.

What I can give you, in global terms, would be just a statistical breakdown of the percentage of default rates and the number of institutions in each category of percent of default, from 10 percent up, of the 3,600 institutions in the NDSL program.

[The following additional statement was subsequently provided:]

We do not have any quantifiable data to support our contention that schools, rather than students, must assume the responsibility for high default rates. However, based on anecdotal information and our own experience in the GSL program, we know that active and aggressive exercise of due diligence will result in better collections.

Further, informed student borrowers who completely understand their obligations with respect to loans, are much less likely to default on their loans. The Congress recognized this fact by including the student consumer information provisions in the Education Amendments of 1976.

We also believe that students are more likely to default if they borrowed to attend school to obtain specific career training and, because of inadequate preparation, are unable to find employment in the fields for which they are trained.

All of these reasons lead us to the conclusion that the best and most effective approach to reducing default rates is to concentrate on institutions and have planned our activities in this direction. Then, we believe, our efforts in dealing with students would be limited to the most "hard core" cases.

Mr. LEVITAS. My last question refers to page 13 of your attachment under future steps. You say you anticipate making legislative proposals to prevent students who default on NDSL or GSL loans from receiving BEOG grants at any school.

Does your computer capability provide you with the information of how many loans a specific individual student may have received under one or more of these programs and whether that student has received one or more BEOG grants?

Mr. CALIFANO. Not yet. We hope to get there. Let me make clear what that recommendation relates to.

That recommendation and legislation relates to the fact that currently a student is not eligible for a BEOG program at a school at which he has defaulted on a loan. The law does not cover a student who has defaulted on a loan at school A but is now getting a BEOG grant to go to school B.

We think that loophole should be closed.

Mr. FOUNTAIN. Don't you have some administrative discretion there?

Mr. CALIFANO. Not there, Mr. Chairman. That is why we think we need legislation.

As I mentioned to you and Mr. Naughton, in preparing for these hearings, we have learned a lot about these programs. Our lawyers are looking at other aspects of the law in which we might recommend a change.

But back to your question, Mr. Levitas, I think it is important to note that while I mentioned the half dozen or so programs in HEW on which I can direct and get our computers programed the proper way, there are 55 other student assistance programs in the Federal Government run by other agencies. Some of these are the VA, the Labor Department, and the Department of Agriculture. They are scattered all over.

What I wish to do, and we are undertaking to try to do, is to get all those programs coordinated.

Mr. LEVITAS. It that part of the reorganization target?

Mr. CALIFANO. No. It is not in the reorganization of the Education Department as it now stands, although I suggested this shortly after I became Secretary and I think it was under consideration. I have urged the President to consider putting all these student financial assistance programs in one place.

Short of that, we are beginning now to work with these other agencies to try to get their records on compatible computer tapes so we can do exactly what you want. When a student comes in for a BEOG grant, we should be able to plug in that student's social security number and find out whether that student is receiving any other assistance in any other program in the Federal Government. We cannot do that yet.

Mr. LEVITAS. I think that would be very helpful.

Since the full committee is presently considering the Department of Education reorganization, I, for one, would hope that perhaps the staff of this subcommittee would communicate with Mr. Brooks' staff that it might be very well for us to recommend the reorganization and consolidation of the student loan programs into one area just for administrative purposes, and also for cross-checking of who is getting what.

On the State-involved programs where the Federal Government provides funding to States on a matching basis to provide student assistance, are the default rates higher or lower? How do you find them? Are they pretty well administered programs?

Mr. CALIFANO. They are somewhat lower default rates, but we think they are increasing. We can supply some numbers for the record.

Mr. LEVITAS. I would appreicate it if you could supply the comparable numbers for State-involved program defaults as compared to those that are solely administered by the Federal Government.

Mr. FOUNTAIN. Without objection, so ordered.

[The following information was subsequently provided:]

Following are cumulative default rates for the Federally Insured program and the Guarantee Agency program (individual states as well as total) as of the end of fiscal year 1977. The Guarantee Agency rates are based upon data submitted by the individual agencies. As you will note several state agencies have individual rates higher or close to that of the Federal program.

It is important to note that one reason for the historically lower default rates in the State Guarantee Agency programs is that some States have had more restrictive programs. For example, under some State programs, freshmen students have not been eligible for Guaranteed Student Loans, loan limits have been set considerably lower than the Federal program, and loans have been restricted to in-State students going to in-State schools. The result of these types of restrictions has been that State programs have assisted the less "risky" students.

This situation is in the process of changing since the majority of States have now signed 100 percent re-insurance agreements with the Office of Education and, in order to receive 100 percent re-insurance, the States must make loans under the same conditions as the Federal program.

| | Rate | Defaults | Matured loans |
|---|---|---|---|
| **Guarantee agencies as of Sept. 30, 1977:** | | | |
| **Alaska** | 10.8 | $52,000 | $485,000 |
| **Arkansas** | 2.3 | 435,000 | 19,138,000 |
| **Connecticut** | 6.8 | 12,750,000 | 188,468,000 |
| **Delaware** | 5.1 | 220,600,000 | 4,336,000 |
| **District of Columbia** | 14.1 | 1,549,000 | 11,024,000 |
| **Georgia** | 11.5 | 7,096,500 | 61,989,000 |
| **Illinois** | 9.4 | 25,644,000 | 272,622,000 |
| **Louisiana** | 9.7 | 4,050,000 | 41,944,000 |
| **Maine** | 5.8 | 2,235,000 | 38,641,000 |
| **Maryland** | 6.4 | 3,016,500 | 47,523,000 |
| **Massachusetts** | 11.1 | 11,806,000 | 106,194,000 |
| **Michigan** | 8.7 | 9,614,000 | 110,222,000 |
| **Nevada** | 13.4 | 767,000 | 5,723,000 |
| **New Hampshire** | 4.2 | 639,000 | 15,336,000 |
| **New Jersey** | 8.8 | 27,125,000 | 312,902,000 |
| **New York** | 12.1 | 137,718,000 | 1,140,233,000 |
| **North Carolina** | 8.4 | 2,365,000 | 28,142,000 |
| **Ohio** | 2.2 | 3,276,000 | 146,323,000 |
| **Oklahoma** | 7.6 | 2,017,000 | 26,490,000 |
| **Oregon** | 6.7 | 3,614,000 | 54,240,000 |
| **Pennsylvania** | 11.3 | 68,957,000 | 609,499,000 |
| **Rhode Island** | 7.6 | 2,786,000 | 36,826,000 |
| **Tennessee** | 4.4 | 1,600,000 | 36,750,000 |
| **Vermont** | 5.3 | 537,000 | 10,078,000 |
| **Virginia** | 2.5 | 1,950,000 | 76,739,000 |
| **Wisconsin** | 3.9 | 4,126,000 | 105,664,000 |
| **USAF** | 8.2 | 20,175,000 | 247,056,000 |
| Total program: | | | |
| Guarantee agency program | 9.5 | 356,122,000 | 3,754,585,000 |
| Federally insured program | 12.8 | 437,000,000 | 3,409,000,000 |

The current formula used for calculating default rates is:

$$\frac{\text{Cumulative Loans In Default}}{\text{Cumulative Matured Loans}}$$

The numerator represents the total dollar amount of default claims paid as well as on-hand to be paid, to lenders by the GSL program since inception.

The denominator represents the total dollar amount of all loans having entered repayment status since program inception. This amount includes fully repaid loans (including default claims paid) as well as those currently repaying, but excludes loans for which the borrower is still in school or in the grace period.

Mr. LEVITAS. Thank you, Mr. Chairman.

Mr. FOUNTAIN. I do not believe I ever got beyond my first two questions. Before yielding back to the minority, I would like to get into the record an explanation from you of just what comes under the term "proprietary schools"?

Mr. CALIFANO. I mentioned beauty schools. They are schools basically run for profit.

Mr. FOUNTAIN. Barber and beauty schools?

Mr. CALIFANO. Yes, barber, beauty schools, meat cutting schools, some secretarial schools.

Mr. FOUNTAIN. You also referred to "phantom students" and institutions falsely representing the students attending a full course of instruction when, in fact, the students dropped out or never attended. I wonder if you would elaborate for the record as to just what you had in mind.

Mr. **Califano**. What we mean is a situation in which someone is running a school and falsely submits applications for 10 students with false names. The students never go to the school. They are never there. The school just collects the BEOG money.

The BEOG money, for the most part, is initially credited to the school to pay a portion of the tuition. They just keep that money and use it.

Mr. **Fountain**. So the school gets the benefit?

Mr. **Califano**. That is correct.

Mr. Wydler?

Mr. **Wydler**. Mr. Secretary, you have given us some encouragement in your statement by comparing what you are doing now with what happened immediately before. It looks good.

But I wonder if we are actually making progress?

For example, on page 2 of your statement, you talk about the quarter that ended on June 30, 1978, that reflected $4.5 million on defaulted guaranteed student loans, two times the amount collected during the same quarter in fiscal year 1977.

Well, perhaps you picked the particular quarters that might make you look good. I do not know if that is the case or not. But do we know, for example, how much money in that quarter of new money was defaulted?

Mr. **Califano**. I can go back in the GSL program.

Mr. **Wydler**. Do you understand what I am driving at?

Mr. **Califano**. Yes, I do.

Mr. **Wydler**. In other words, what is really our position in relation to what the problem is? That is the point that I think the subcommittee would like to understand.

Mr. **Califano**. Let me say that with respect to the GSL program, as I tried to indicate, we believe that the backlog of defaults—which includes the defaults coming in—peaked about a month and a half ago at 400,000.

In January 1977 it was 300,000. It was up to 400,000 in May. In June we dropped it to about 370,000-plus. In mid-July we had it down to about 366,000.

But I specifically want you to understand that, while it looks as though we have peaked and are on the way down, we will not be sure until we have a longer period of experience because we are dealing with older loans first. They may close out faster for a variety of reasons.

I think also that we will make substantial progress in terms of collecting more money than loans going into default, now that we can hire the additional personnel with reprogramed funds.

In terms of dollars, I did not pick a particular quarter because it was good. I just picked the most recent quarter for which we had numbers. Every quarter for which we have numbers should keep getting better and better, quarter by quarter, if we are doing the right thing.

Mr. **Wydler**. In other words, what you are telling me is that the total number of defaulted guaranteed student loans should continue to decrease?

Mr. **Califano**. I would hope so. That is correct.

The reason I do not want to guarantee it——

Mr. **Wydler**. We are talking about the net number.

Mr. **Califano**. The net number has been going down for the last 6 or 8 weeks. But it is not a long enough period for me to say that we are on an absolute decline. The reason for that is that we are taking, as I indicated, the oldest loans first and we are probably cleaning out some of the easiest of the oldest first.

That decline may be more rapid than it will be when we get to harder cases where there will be more litigation and more objections from students that they will not or cannot pay.

Mr. **Wydler**. As I mentioned in my opening statement, Mr. Secretary, I am particularly interested in any of these loans going beyond the statute of limitations. We find ourselves in the embarrassing position of trying to justify having let that happen.

What controls do we have on that situation?

Mr. **Califano**. Basically we are going to the oldest first. We will submit for you those we think we have lost under the statute of limitations.

While you were out, Mr. Cunningham made a very good suggestion that I adopted on the spot—that we try to seek waivers of the statute as the IRS does in auditing tax returns.

Mr. **Wydler**. That would be a good idea.

The other good idea is, of course, to refer these cases to the U.S. attorney to take the judgment at once. That is the best idea.

It seems to me that is the way to proceed.

Mr. **Califano**. We do, but part of the problem relates to our inability to find the individual.

Mr. **Wydler**. I am a little confused about what the actual status is regarding this tracing of lost persons in the Government today.

Do you, in your Department, have access to the social security and IRS files insofar as they relate to persons' addresses?

Mr. **Califano**. We have access to the IRS files insofar as they relate to persons' addresses under a specific statute passed by the Congress. We have assistance from the Post Office. We get assistance from the motor vehicle bureaus. But we do not get assistance from social security yet.

Mr. **Wydler**. Is there any reason you cannot get an address from the social security system?

Mr. **Califano**. We are looking at that now. The reason I am hesitant to answer that question is because so many questions are being raised in the committees about the privacy of the social security records.

Mr. **Wydler**. I am not going into the question of the information in the social security system and the information in the IRS system, other than the address of the person.

That is the information that I think anybody in the Government should have access to, especially in the case where you are trying to collect funds that are due to the Government. I cannot conceive why we would consider that private in that particular piece of information.

Mr. **Califano**. I do not have any disagreement with you on that.

Mr. **Wydler**. We are taking Government employees and we are running them through computers all over the place. You are trying to match them up. I happen to agree with that policy, but in doing that to Government employees, it does not seem to me that we should shirk the idea of asking somebody in the Government for an address that a person may have that is on Government file.

I really think we should be doing that aggressively. I would be willing, and I think everybody in this subcommittee would be willing, to try to back you up in any attempt you made in that connection.

Mr. CALIFANO. Except for beneficiaries for whom it mails out checks, Social Security does not have the address of the individual. It has the address of the employers. But that still would be helpful. I will look into that. I will give you a report on that.

Mr. WYDLER. Can you explain to me what, if any, restrictions there are on the colleges? I understand the colleges have the same problem of trying to locate people. They want to collect the money and they cannot get any help.

I find that hard to believe, but apparently that is the situation we face. What can we do about that?

Mr. CALIFANO. The way the statute is written, authorizing us to have access to addresses that the IRS has, it prohibits us from giving those addresses to someone else; thus, the college cannot get the address from the Internal Revenue Service. This committee may want to look at whether or not that law should be changed. That is why they have trouble.

Mr. WYDLER. Again, I certainly think that is the kind of law we should change if, in effect, we in Congress really are serious in asking people to collect the money. If we want them to collect the money, we want to give them the tools to do it.

I am just going to finish by making this statement.

I think the key to the whole of your problems in this program is collections. If you get a really effective collection program going, the front end is going to drop off considerably.

A fellow is not going to go in there and lie to get a loan if he knows he is going to have to pay it back. He will have a lot less incentive. I think the reason they have so much incentive now is that they know they can get the loan and that is the end of it. They are never going to pay it back. It is just like getting a grant.

But once the word gets out in the community that these loans are going to be collected and they are not going to be let go and you are going to have a judgment against you if you take it and you do not pay it—once that word gets around the rest of the problems are going to start to dry up very fast.

I think the key to getting this problem under control is what you do on the collection end. So, I hope that you will try to stress that. That word will quickly get out into the community. You take these loans and you pay them.

Once the people know that they are not going to rush down to get one through fraudulent means because they know they are going to get it in the end.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. Thank you, Mr. Wydler.

I will get a few more questions in, then I will yield back to Mr. Brown.

It is my understanding that the New York State Department of Education made a study to determine how much it costs to produce a graduate under a New York State educational grant program at the City University of New York.

According to an April 10, 1977, report in the New York Times, the study concluded that the cost to produce a single graduate was $103,061. The primary reason for the cost being so high, apparently, was that only about 12 percent of the students admitted to the program actually were graduated.

Are you in a position to express an opinion as to the completion rate under the Office of Education educational grant programs by way of comparison with those statistics?

Mr. CALIFANO. Mr. Chairman, we cannot provide numbers on completion rates. We are about to embark upon a study of the issue of dropouts. We do not have numbers on that issue now.

Mr. FOUNTAIN. As I pointed out, Mr. Secretary, the taxpayers are currently spending more than $4 billion annually for Office of Education student financial assistance programs.

What steps have been taken by your agency to ascertain the extent to which these programs are accomplishing their intended goal of helping needy students obtain the benefits of postsecondary education?

Mr. CALIFANO. Mr. Chairman, I mentioned the steps in my prepared statement. We are trying to review every regulation that the Office of Education has issued, as we are doing with all department regulations, to see if those regulations conform simply and clearly to the laws and intent of the Congress.

We will, as we learn more about the student assistance programs, be more assured, I believe, that the money is going to people in the amounts that they deserve, as well as the people who are supposed to get it.

The objective, basically, is to make sure everybody gets every dollar they are entitled to, and nobody gets a dollar more than they are entitled to.

Mr. FOUNTAIN. This question comes to mind as I reflect on the initial question I asked you about your having to administer over 400 grant-in-aid programs.

Do you ever wake up in the middle of the night and think about the extent of your responsibility as the head of an agency which has 400 grant-in-aid programs to administer and how you, as the head of this agency can so delegate and so keep up and so coordinate as to know what is going on in the first place? [Laughter.]

Mr. CALIFANO. Not in the middle of the night, but anytime. [Laughter.]

Among the problems I have as Secretary of HEW, sleeping has not been one. [Laughter.]

Mr. FOUNTAIN. I understand that.

Mr. CALIFANO. I think as much as anyone that Lyndon Johnson and Secretary McNamara taught me this by example. I spent an enormous amount of time interviewing people for the jobs in HEW. I think I interviwed probably 10 or 12 hours a day, beginning on the day after Christmas through the end of March. I think that is the best thing I can do in the context of trying to get these programs run right.

I have tried to get the best people. I have never asked anyone I interviewed what party they belonged to or any political question at all. I only asked the head of the Office on Smoking and Health whether he smoked or not.

Mr. FOUNTAIN. Even up here, those questions run through our minds because we are busy doing a great many things in addition to enacting a lot of laws. Many people who are voting upon those laws do not know what is in them. That is the thing that frightens us up here.

Mr. CALIFANO. I think the fragmentation of the grant program process and the tremendous increase in legislation and regulation make it more and more difficult to run programs efficiently. It is aggravated in a place like HEW because there are so many vulnerable interests—poor people, handicapped people, what have you—that want specific legislative authority to protect them.

Mr. FOUNTAIN. In your July 25 letter, you indicated that drop-out information by schools is not available. Do you have any information concerning the percentage of students receiving Federal financial assistance who successfully complete that course of study?

Mr. CALIFANO. We are going to conduct that study as a result of your question and our conversations with your staff. We are now going to embark upon a study to find out what is happening to these students.

Mr. FOUNTAIN. I will ask you this question as a followup.

Is it not essential to have this kind of information in determining how well the programs are working?

Mr. CALIFANO. I think it is important and relevant information to get a sense of how the program is working.

Mr. FOUNTAIN. Does HEW have any reliable information concerning the number of students receiving financial assistance to attend vocational schools who are successful in obtaining the kind of job for which they have been trained?

Mr. CALIFANO. This is the same problem, Mr. Chairman. We do not have that information.

Mr. FOUNTAIN. Are you in the process of obtaining this information?

Mr. CALIFANO. We are trying to do the same thing on a statistically sound sample with vocational schools.

Mr. FOUNTAIN. Mr. Secretary, I would like to ask you some questions with respect to the relative severity of problems in different programs.

It is my understanding that it has been your opinion that problems in the national direct student program are more serious than those in the guaranteed student loan program and the basic educational opportunity program; is that an accurate statement?

Mr. CALIFANO. I think it is, Mr. Chairman. The GSL program is one which we run ourselves and run largely with banks. I think we can move fastest to get that program in shape than any other program.

I think with respect to the NDSL program, which is the campus-based college loan program, or proprietary school-based loan program, we are dealing with thousands of institutions which are not traditionally in the business of collecting loans and administering programs like this. Many of these have done well, but many have not done it well.

It will take longer to get the NDSL program in shape, longer to deal with the default problems. With all of the problems we have with GSL addresses and records, it is not nearly as bad, we are discovering, as the problems we have with universities that have high default rates and have accumulated a lot of defaulted loan notes.

As far as the BEOG program goes, Mr. Naughton makes an important point—that at least with the loan programs we have an audit trail. We have somebody we can go after and follow and find. We do not have that with the BEOG program. In preparing for this hearing last night I asked to have the way we deal with the BEOG program made a part of the legislation reauthorization studies that are now going on within the Department.

All of these programs have a special problem because of the general provision of law that the Congress has passed relating to the relationship between the Federal Government and educational institutions in terms of not getting the Government too deeply involved.

I would like to read the law because I think it is important. It says:

> No provision of any applicable program shall be construed to authorize any department, agency, officer, or employee of the United States to exercise any direction, supervision, or control over the curriculum program of instruction, administration or personnel of any educational institution, school, or school system.

Mr. FOUNTAIN. Would you give us the Code citation on that?

Mr. CALIFANO. Yes, it is section 432 of the Education Provisions Act, 20 U.S.C. 1232a.

I think that is a sound provision of law. I understand the reasons for it. I do not think the Federal Government should get too deeply involved in education. I have expressed concern about higher education institutions being too dependent on the Federal Government.

Mr. FOUNTAIN. I think you have given us the overall default rate. I note from some of the information I have from staff that 200 of the 3,400 schools participating in the NDSL program have individual default rates in excess of 50 percent and some are over 80 percent; is that correct?

Mr. CALIFANO. That is correct, Mr. Chairman. If anything, that number may be low because of the inadequate reporting by schools to us. But that is correct.

Mr. FOUNTAIN. Since the bells have sounded for a rollcall vote, we will take a short recess.

[Recess taken.]

Mr. BROWN [presiding]. The hearing will come back to order. Can you tell me how HEW or the law determines the amount of money available for these various programs by State or by region? Is there a distribution?

Mr. CALIFANO. It varies.

Mr. KORNFELD. The BEOG formula is based on each individual student and the BEOG goes to the student regardless of which institution that student is attending. It is an entitlement program primarily based on the family's need.

Mr. **Brown**. So if an institution has 90 percent of its students in a high need category, they will get a great deal more money than an institution that has students——

Mr. **Kornfeld**. It is strictly by national needs standards set up by a national formula approved by Congress every year.

Mr. **Brown**. As it is, the black institutions, or institutions catering particularly to the low-income groups, or an institution which is elected because of the encouragement of Federal policy to increase its number of low-income students will receive more assistance; is that correct?

Mr. **Kornfeld**. If the student chooses to go to that institution, yes, it will. The student makes the decision as to which institution he or she wants to attend.

Mr. **Califano**. There is also one other point which is important which is part of that formula. That is the amount of tuition at the institution. The developing institutions have traditionally very low tuitions. So, they might get less BEOG money.

Mr. **Kornfeld**. That is a very important point. Under the formula, the most you can get is 50 percent of the total cost.

Mr. **Brown**. Have the defaults in this area for these kind of students been essentially higher than in other areas?

Mr. **Kornfeld**. This is a grant program.

Mr. **Califano**. There are no defaults in the BEOG program. They are just grants.

Mr. **Brown**. There are no student loans involved?

Mr. **Califano**. That is another program.

Mr. **Brown**. I am talking about two separate issues. I understand the BEOG program, but I am talking about the students who may qualify for loans in addition to the BEOG program.

Mr. **Califano**. If your question is, "Are those students who qualify for BEOG grants enrolled in institutions with high default rates?" the answer is that we have never made a study of whether there is a relationship between defaults and higher BEOG money.

Of the 200 institutions that I mentioned that have default rates of 50 percent or higher out of the roughly 3,400 institutions in the NDSL program, I think around 50 are in the title III developing institution category.

Mr. **Brown**. Or heavy BEOG users?

Mr. **Califano**. Which would be heavy BEOG users.

Mr. **Brown**. The other programs are distributed—the funds for student loans for instance? The guarantees that are available for NDSL. Does that have a distribution system?

Mr. **Kornfeld**. The other major programs are the campus-based programs. These funds are first distributed by State based on State formulas prescribed by Congress. The total dollars in those programs are distributed first by State and then allocated to the institutions within that State.

Mr. **Brown**. Which are those?

Mr. **Kornfeld**. The campus-based programs are the NDSL, SEOG, and the college work-study programs.

Mr. **Brown**. That is by law or by decision of the Secretary of HEW?

Mr. **Kornfeld**. The law sets the State allocation formulas.

Mr. **Brown**. The Federal money sets the formula for distribution to the States?

Mr. **Kornfeld**. Yes.

Mr. **Brown**. On what basis does the regional panel that makes its decisions about the formal limit on how much universities are to receive and which universities receive augmentation grants and which do not? What is their basis for judgment?

Do you understand my question?

Mr. **Kornfeld**. Yes, I do.

The system that we have had in the past is this. After the first cut on the total funds, for the SEOG, the NDSL, and the college work-study programs is made by State, the funds within each State were distributed to the institutions through a panel procedure. Institutions submitted an application grant form indicating what they felt their needs were. The panel reviews the application and then makes a recommendation on how much money the institutions get.

That system is now being reexamined and we are exploring the distribution of dollars within the States to the institutions by a formula based on institutional need which will include auditable data and will include other grant-in-aid assistance institutions have available. Based on that we will come up with a number that the institution should get within the State within the total allocation.

Mr. **Brown**. Would you say it relates to their default rate?

Mr. **Kornfeld**. No, how much money an institution would get—first, using a formula, we will determine how much an institution will get in the NDSL program.

We now have another plan under consideration within the Department which will call for reducing the amount of dollars an institution will get, depending upon their default rate.

Mr. **Brown**. But that has not been applied?

Mr. **Kornfeld**. That has not been applied in the past.

Mr. **Brown**. Anyplace?

Mr. **Kornfeld**. It has not been applied consistently anyplace. It has been applied, but very sporadically in the past.

Mr. **Brown**. When an institution has a separate college—law, medicine, and that sort of thing—which may be separately administered but under the total tent of the institution, how is the determination made on the systems granted for that separate college, the graduate program?

Mr. **Kornfeld**. There are only three programs that apply to that type of institution, such as a college of medicine or a dental school, et cetera. They are the work study program and the two loan programs.

We also have a new loan program, the HEAL program, available this year for people in the medical fields, namely, medicine, dentistry, et cetera.

For all other programs—for example, the BEOG program—graduate students are not eligible.

Mr. **Brown**. How do you make the determination? In other words, is it a separate decision based on the various medical schools or is it based on the university? How is it administered?

Mr. **Kornfeld**. The decision as far as allocation of funds for the university is concerned?

Mr. **Brown**. Let us say for medical school.

Mr. **Kornfeld**. The need for that medical school is included in the calculation.

Mr. **Brown**. For the college?

Mr. **Kornfeld**. For the college and their specific needs for the various schools, the medical schools, dental schools, et cetera. In the past we had a formula which identified that specific need which will be more equitable now than what has been going on in the past.

Mr. **Brown**. The default rate would not relate to that; is that correct?

Mr. **Kornfeld**. The default rate in the NDSL program will relate to that?

Mr. **Brown**. Does it now?

Mr. **Kornfeld**. Not really. It has been done in different places somewhat sporadically, but not consistently.

Mr. **Brown**. That presents a certain problem, does it not, to those institutions which have been chastised versus those that have not been chastised?

Mr. **Califano**. That is exactly what I indicated in my opening statement as to why we are putting in effect a whole new set of rules that will relate the amount of money an institution will get under the NDSL program to default rates.

What we propose to do is this. Because of the way it has been administered in the past and the unfairness, which you mentioned, we will take the accumulated default rate and treat that in one way.

We will take the default rate from here on out and treat that in another way in determining the performance we want from that institution. We will want them to reduce their accumulated default rate over a certain period of time, and in the future to have a much lower default rate.

Mr. **Brown**. What kind of technical assistance does HEW provide to help institutions reduce their default rate so they can get below that 20 percent figure?

Mr. **Califano**. Our recently approved reprograming request included $400,000 to upgrade institutional financial aid officers.

We also have a regular program for training financial aid and fiscal officers. For example, this May and June, we held 67 special workshops attended by over 5,000 persons, on the national direct student loan collections process. Next year we plan to expand our regular training efforts. Included in this expansion will be 20 workshops especially for personnel in developing institutions.

I have asked Harvey Kapnick, who is the head of Arthur Anderson, if he would take this on as a pro bono activity, particularly helping developing institutions get their books in shape and their systems in place to deal with this.

Mr. **Brown**. Are you exploring the possibility of modifying the mechanism?

It seems to me that never mind the objection, but assume that the objectives are all worthwhile and that we do not want to change the work study program or the basic opportunity grant system or anything else in the objective of who we help and how they are helped in the developing institutions approached and so forth.

Is the mechanism by which these loans are made or administered at fault here? Have you made recommendations to the committees on that?

We came to the conclusion, I think, or you did—and it seems like a truism—it may be less of a priority for some institutions to collect somebody else's money than it is for them to collect their own.

Is there a way in which we could set this thing up so that distinction would not exist?

Mr. CALIFANO. I did the following. We recommended the middle income assistance program, which is now pending before the Congress, and the increases in funds recommended for the GSL program. This proposal does not apply to the campus-based program—although I think Congress put a little more money in for them—and for the BEOG program and the work-study program.

Next year is the year in which the Congress will consider reauthorizing all these programs. We are looking at the very question you raised; namely, whether changes should be made.

It is easy to conjure up much more efficient ways of doing it. There are also political realities. There are very strong lobbys and support for leaving the loan programs, at least in the institutions, where they are. The institutions like to run these programs and feel very strongly about them. They were able, for example, to obtain more funds in those programs than we have suggested.

Mr. BROWN. You have the money and you can pass it out and if you did not have to pay it back, I think it would be very desirable. I would be very thrilled about that if anybody was sucker enough to do that.

Mr. CALIFANO. In response to your question; yes, we are looking at the mechanisms as part of the reauthorization recommendations. That is, I think, one of the reasons that these hearings are so timely.

Mr. BROWN. Will you consider tax credits?

Mr. CALIFANO. Well, we expressed our view on tax credits.

Mr. BROWN. I know you have, but if you relate it to the problem that we faced on these loans, it seems to me that it might be a cleaner way of dealing with some of the grant problems and the loans problems.

Let me just make an observation, if I may, so you will know where I am coming from, Mr. Secretary.

I have institutions in my district—not in my area—in the district I represent that use every one of these facilities. I also have developing institutions. I also have black institutions. I have some that have as high as 90 percent, I believe, basic opportunity grant financed youngsters.

Those young people do not have the personal background that makes a student loan to a bank an appropriate mechanism for them to get help. Some of those students also do not have tax credit opportunities.

So we probably are going to have to maintain some kind of grant program to reward the youngster from a very low income family who does have—not reward him, but give him an opportunity who does have the potential for higher education.

I do not think we are doing much for him if we give him a higher education and teach him to con the government, and give him assistance that is so easy to rip off.

Mr. CALIFANO. With respect to tax credits vis-a-vis these programs, as you correctly point out, Mr. Brown, for the poor student, the tax credit will be of no assistance. What he or she needs is a grant. They need cash.

Our view, and the support I discovered today from Mr. Levitas, by the majority of the American people according to the Roper poll, is that the problem for the middle income American is a cash-flow problem, a need for a substantial amount of cash. A $250 tax credit is not much help for the $7,000 tuition bill, or the $5,000 tuition bill.

Mr. BROWN. It would pretty much help with the $500 tuition bill. You shifted the comment from the lower income person to the middle income person.

Mr. CALIFANO. That is right, because there are two kinds of people. We believe that person would be better served by investing our resources and providing loans to people with family incomes of about $40,000.

Mr. BROWN. I do not want to get off in a discussion of the tuition thing in great detail, but I think the cost of administering it is too high.

It has been suggested that you are blacklisting or redlining some schools because of a program that the Federal Government put out and then did not follow up on and that those schools are now in jeopardy because of that problem.

I refer you to Mr. Raspberry's article in the July 5 Washington Post.

Mr. CALIFANO. That is a totally incorrect article. We have identified institutions with very high default rates and we have identified institutions which also have very serious financial problems in terms of sheer survival.

We have put together a team composed of several people in the Department in order to try to work with those institutions to reduce the default rates and to see if we can help put them in a more statisfactory financial base.

But whether those institutions survive or do not survive is a function of those institutions. What happens with HEW and some of these institutions is that we now have colleges and universities in this country that are almost completely dependent on the Federal Government.

This is a question which I think deserves a little more attention from the body politic than it has received: Do we want to turn our higher education system into a national system of education in which no higher education institution can survive without Federal aid?

There is no Federal aid without Federal strings.

Mr. FOUNTAIN. Mr. Secretary, when you make bad loans, there is an automatic audit trail that will eventually show up in the form of a high default rate or at least complaints from borrowers. This will happen without any effort on your part to look for irregularities.

However, in the case of grant programs, there is no repayment obligation and little incentive for recipients to complain.

Is there any reason to believe that grant irregularities will become known if you do not go out and look for them?

Mr. CALIFANO. Mr. Chairman, there is the argument that says that grant programs are more difficult to administer effectively than loan programs.

I think we must devise, to the extent we have the power and the imagination to do it, ways to follow those grant programs.

As I said, we have some difficulties because of restrictions on the extent to which the Federal Government is permitted to become involved in the administration of the institutions which run those institutions.

Basically, my hunch is that it is the schools that will have to provide that policing effort for the BEOG program or any program like it. We are in the process of looking at that and answering the kinds of questions you have raised in that area. I hope before these hearings are over we will all have a better insight.

Mr. FOUNTAIN. I agree that you cannot employ enough staff to go out and check all these people individually, and that there is a responsibility on the part of the institutions.

I think you are justified in insisting that institutions carry out their responsibilities if they want to continue to participate in these programs.

What percent of HEW expenditures under the basic educational opportunity grant program have been audited by HEW auditors?

Mr. CALIFANO. I will have to defer to the Inspector General on that.

Mr. MORRIS. I think we should furnish those for the record. I am not certain, but I can get that data for you.

Mr. FOUNTAIN. Please supply that.

[The following information was subsequently provided:]

This information is currently not available. The HEW Audit Agency's Management Information System keeps track of audit reports on Student Financial Aid Programs administered by the Office of Education. The system does not keep track of individual student aid programs audited. Normally one report is issued which covers the results of all student aid programs at the participating institution. The Audit Agency's system provides information such as: total number of institutions audited, period covered, total funds reviewed, and findings—procedural as well as monetary.

Even though the system does not provide the desired data, we estimate that the percentage of HEW expenditures under the BEOG program which have been audited by the HEW Audit Agency is less than 5 percent.

Proposed regulations dated May 15, 1978, on the BEOG Program provide for an audit of BEOG funds at participating institutions by non-Federal auditors. The audits are to be scheduled annually or, at least once every two years and are to be performed in accordance with HEW's audit guide on the BEOG Program. The adequacy of these reviews will be subjected to a review, as part of the Audit Agency's quality assurance program.

We expect that this audit requirement will create a substantial increase in the amount of audit coverage provided for the BEOG Program. In anticipation of the increase in workload that will result because of the recent mandatory audit requirements imposed on participating institutions, the Office of Inspector General/Audit Agency has developed a plan to improve the overall quality of audit reports performed by non-Federal auditors.

The plan provides for development and issuance of audit guides on the Campus-Based, BEOG and GSL Programs; developing training materials for jointly sponsored seminars between the Audit Agency and the accounting profession; and development of a tracking and monitoring system which will provide the type of information requested. We estimate that the system will be operational to start tracking audits for program year ended June 30, 1979.

Mr. FOUNTAIN. What percentage of HEW's audits of the BEOG program disclose significant problems?

Mr. MORRIS. The last summary I have a record of covers schools involving BEOG and other programs, largely campus-based. This shows that all had some deficiencies—an average of at least one major deficiency per report.

So, I think that, from a management point of view, there are pervasive problems in terms of proper validation of applications, proper recordkeeping, and due diligence in collecting loans and so on.

Mr. FOUNTAIN. What percentage of HEW's expenditures under the BEOG program would you estimate have never been audited at all?

Mr. MORRIS. Up until the present time, there has not been a mandatory audit requirement, so it is quite possible that a fairly high percentage of those dollars have not been audited by independent auditors.

As Mr. Naughton knows, we have just instituted a requirement which will make it mandatory for every institution to be audited at least ever 2 years for every program, including BEOG.

I have with me today the guidelines we have developed for that audit. It will take outside audit support—about 600 audit-staff years annually we estimate, from States and private firms to accomplish this.

But we are well on our way to plugging one of the biggest gaps that has existed.

Mr. FOUNTAIN. You say you have guidelines already?

Mr. MORRIS. Yes.

Mr. FOUNTAIN. Would you give the subcommittee the benefit of those guidelines for the record?

Mr. MORRIS. We would be pleased to.

Mr. FOUNTAIN. Without objection, so ordered.

[The material requested is in the subcommittee files.]

Mr. NAUGHTON. In your prepared statement, Mr. Secretary, you indicate that among the problems you found when you came in were a backlog of cases of alleged fraud in the guaranteed student loan program, primarily at proprietary schools, equal to 3 years of work for the available HEW investigative staff.

What is your estimate of the present backlog of uninvestigated student financial assistance cases?

Mr. MORRIS. The current backlog is also 3 years. We have not made any dent in that backlog this year, because we are awaiting the availability of a staff expansion. To put it in simple numbers, we have had fewer than 10 equivalent people working on these cases. From the investigative standpoint, we need 30 and intend to so assign them as soon as Congress grants authorization.

Mr. NAUGHTON. I think the record should show that the 3-year backlog at the present time involves many more cases than the 3-year backlog 2 years ago.

Mr. **Morris**. That is correct. Our staff has grown a little bit this year.

Mr. **Naughton**. Is there anything that can be done other than what you are doing to provide some emergency assistance to help on this backlog?

Mr. **Morris**. I think, Mr. Naughton, that we have an adequate request before the Congress. I expect the Congress to grant the request. As soon as the fiscal 1978 supplemental appropriations bill passes, we will have some additional people.

Mr. **Califano**. I might note that this is one of the very few areas in which we asked for additional people in our new budget. But it is clear to me that the Inspector General's Office generally needs additional people.

Mr. **Fountain**. Mr. Secretary, I realize that the head of an agency is always technically responsible for what goes on underneath him even though he may not have directly participated in what happened.

In your prepared statement, you make reference to the fact that the Department has been negligent; the program has been poorly administered; the Department failed in many areas to develop adequate regulations and procedures and did not effectively enforce those regulations that it did publish; and the Department's efforts to collect on defaulted loans were sporadic, unsystematic, and ineffective.

Prior to your having an Inspector General, where was the central responsibility other than in the head of the agency?

Mr. **Califano**. With respect to these programs, these were fragmented in several offices and bureaus. They were not in one place. In the big HEW reorganization in March of last year, one of the key elements was the creation of the Bureau of Student Financial Assistance. As far as the audit function of the Inspector General is concerned, it was with the Office of the Comptroller.

We consolidated those after you passed the legislation.

Mr. **Fountain**. Along the same line, in your prepared testimony, you mentioned the fact that some 300,000 Federal insured loans were in default involving more than $300 million—a 13-percent default rate.

Then you said: "As of November 1977, virtually no students who had defaulted had been regularly billed by the Federal Government."

Did you ask for an explanation as to why this had not happened? If so, what kind of explanation did you get and from whom did you get it?

Mr. **Califano**. Mr. Chairman, it became apparant that there were serious administrative deficiencies in these programs as we began to fold them into the new Bureau. As I indicated, we announced the creation of the Bureau in March.

Mr. Kornfeld, as I recall, arrived here in August 1977. When we became aware of the level of the default rate and I started raising a little heck about it and he started raising a little heck about it, we discovered that virtually no students had been billed.

There are very few people in this county who pay bills they do not receive.

When I say, in part, that the institutions are responsible as much as the student, or more than the student, this is one example of what I mean. There was no system to bill students routinely.

I think these programs grew like Topsy. I think they did not get computerized fast enough. You have to remember that we have a clientele of 9 million students with almost 1 million coming into the system every year. When you think of the fact that in 1977 in our regions we had people working out of shoeboxes with index cards, it is no wonder there were no serious collection efforts. The whole Bureau simply was not managed.

Mr. FOUNTAIN. Of course, I think Congress has to bear some of the responsibility for enacting programs so fast without anticipating the problems that would arise in the administration of these programs and without exercising too much wisdom in the first place in passing some of the programs we have.

It is fantastic that one agency has to supervise the administration of over 400 grant-in-aid programs. It is absolutely impossible for you to do it as it should be done.

Every now and then we get new Congressmen with new ideas. They come up with a program that sounds good—like being for motherhood or against sin. We vote a new program in without knowing that there are other programs already designed to accomplish the same purpose in a different way. There are a lot of programs, I suspect, under your supervision that are overlapping. You certainly have some that overlap with other agencies which have student loan programs, such as the GI bill and others.

Mr. CALIFANO. That is correct.

Mr. FOUNTAIN. In your statement, you indicated that one of the new initiatives you are undertaking is: "A coordinated effort to insure that students do not receive more money in educational aid than they need to meet actual educational expenses."

Until a few weeks ago, when the subcommittee raised questions about this subject, what action—if any—had HEW taken to try to prevent individuals from obtaining double or triple benefits for the same living costs? How successful do you think those efforts were?

Mr. CALIFANO. I think it is fair to say that we took very little action. What I was referring to was the matches we had begun in the BEOG program against VA programs and social security programs, which was being inspired by the subcommittee. That is precisely what I meant.

We still have a long way to go. We have student programs and grant-in-aid programs, in the Labor Department, the Agriculture Department, and other departments of the Government. At a minimum we have to get them all on a compatible computer system so we can run these checks as the grant application comes in. That is the time to make the check, not after the grant is made.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Mr. Secretary, in your statement you said that:

> We have matched beneficiaries of student assistance under social security with BEOG applicants to assure that SAA benefits are counted in determining the size of the grants that go to these individuals. Here, preliminary and tentative results show that of approximately 600,000 BEOG applicants for 1977-78 who received SSA student benefits, 113,833 may have wrongfully failed to report them.

I wonder if the way in which the BEOG application is written may not have contributed to students not reporting SSA benefits?

Mr. **Califano**. I think there is no question that the BEOG application needs simplification and clarification. We have already made some changes and there are more changes coming.

Our ultimate objective, Mr. Naughton, with respect to the BEOG application and the loan applications is to try to get one application which will cover all HEW programs. In the ideal world, it should cover all the Government programs. This would be a simple application.

The implication of your question is right. That is why I noted at the end of that list of matches that we should not assume that something wrong was done with respect to every raw hit that we have identified in the first computer run.

Mr. **Naughton**. I must confess to some negligence on my part in not reading the BEOG application thoroughly until a fairly short time ago. I found it to be a fascinating document.

With respect to the social security item that we were just discussing, section F of the BEOG application has a notation: "All applicants complete this section."

Question 51(a) in section F inquires as to the amount of social security benefits per month the applicant expects to be receiving between July 1, 1978, and June 30, 1979.

I assume this is the question which was not filled out by the 113,833 students.

Mr. **Morris**. We tried to match questions 18, 36, and 51 in order to draw these conclusions. GAO, as you know, had just matched question 51.

We think we have a little better printout here than would have otherwise been the case.

Mr. **Kornfeld**. Also it should be noted that in the calculation of the grant it is not 51 that gets included, I think it is question 18 that gets included.

Mr. **Naughton**. The question is asked specifically in 51(a). But on page 12 a notice to applicants in the fine print says: "Students need not complete items 5, 7, 8, 17, 51, and 52."

So, you have the question there in the body of the application, but in the fine print at the end you tell the student he does not have to answer it.

Mr. **Califano**. But as Mr. Morris indicated, it was not that question against which the match was run. The relevant question is question 18 for the parent and 36 for the student, if he or she is an independent.

On the basis of receipts of benefits in the prior year, 51 estimates or projects what he may receive in the coming year. So you have it both ways on the form.

Mr. **Naughton**. But the nontaxable income to be reported under 18 or 36 is a conglomerate figure that will not identify social security benefits separately; isn't it?

Mr. **Morris**. It does not, but we are able to identify the social security benefits of those BEOG applicants who are, in fact, receiving social security benefits. That is the basis on which a match was made.

We will be glad to go over this in depth for you.

Mr. **Naughton**. But the application that I am reading——

Mr. **Morris**. It does not single it out as clearly as it could be for this purpose; you are quite right.

Mr. **Naughton**. Why is question 51 optional? Why not make it mandatory?

Mr. **Kornfeld**. Because it was for information only.

It does not get included, except for the VA aspect, in the actual calculation of the grant.

Mr. **Naughton**. Are you considering making it mandatory?

Mr. **Kornfeld**. As the Secretary pointed out, we are looking at the entire application. As an ultimate objective, we would like to see a single application for all programs, simple clear, and concise, with auditable data in the application.

Mr. **Naughton**. Illegal aliens are not elegible to participate in the BEOG program; correct?

Mr. **Kornfeld**. That is corrrect.

Mr. **Naughton**. Is there a question in your application which will identify aliens so that you can then determine whether they are illegal or not?

Mr. **Kornfeld**. The question on the application, which is in accordance with the law, states that persons who qualify for BEOG grants are U.S. citizens and those persons who have declared permanent residency, which is a procedure one goes through with the Immigration Service when you intend to become a permanent resident of this country. Those are the only persons who are qualified for a BEOG grant.

Mr. **Naughton**. Can't an illegal alien answer yes to the question, "Are you a citizen?" on the application form without incurring any danger of prosecution?

Mr. **Kornfeld**. I suspect he can.

Mr. **Naughton**. Let me give a hypothetical example,

Supposing I were an illegal alien just infiltrated from Ireland. [Laughter.]

I have every intention of staying in the United States just as long as I can keep away from the Immigration authorities. I intend to become a permanent resident.

Question No. 4 on the application says: "Is applicant a U.S. citizen?" And there are boxes to check "yes" or "no."

Then I look at the instruction and it says: "Answer yes if you are a citizen of the United States * * *"—which I am not in this hypothetical example—"* * * or you are in the U.S. other than for a temporary purpose and intend to become a permanent resident."

Well, I intend to stay here. I am not going to leave unless they catch me. So I answer yes.

Why don't you simply ask: "Are you a U.S. citizen, yes or no?" and then ask a second question: "Are you a permanent resident?"

Mr. **Kornfeld**. I think your suggestion is a good one. The question is not as well-posed as it ought to be.

The important part, I think, is that people who declare, through the Immigration Service, that they intend to be permanent residents and U.S. citizens are the only ones who qualify. We should clarify the question in the application.

Mr. **Naughton**. Does this form require that all applicants report their own income as opposed to their parents income?

Mr. **Kornfeld**. If you are a dependent student, you do not report your own income. You report your own assets.

Mr. **Fountain**. Should that not be considered in determining need?

Mr. **Kornfeld**. It is a difficult question, Mr. Chairman, and it is a question we have long debated among ourselves. The answer is not simple because you have an immediate quandry.

I, for example, have a roommate. We both go to school and we are both dependents. Both of us come from low-income families and we both get grants.

I happen to be more ambitious than my roommate, and, therefore, I work at night pumping gas while he is sleeping. So, I make a little extra money.

Does that mean that I should get penalized?

You have that other kind of case that has to be considered.

What we do consider, which is typical at most universities and institutions is that we do require that a student show some income from summer work. This does get considered in determining the amount of other financial aid.

But the other question about the actual earnings during the year is a difficult question to cope with.

Mr. **Fountain**. When I went to college I did not have access to this sort of program, but I just happen to be one of those students who worked his was through college.

I got my board by getting boarders at a boarding house, my room by getting roomers at a rooming house, and by other things such as working at the YMCA and other places.

What I saved up as a kid selling "Grit," published in Williamsport, Pa., and ice cream and fish—that money was lost when the banks closed.

But I made enough money in college to put me through. Under this program, I could have gotten a grant under my situation and could have stayed in school, gotten my board and my room and some incidentals.

Yet there is no requirement that I report my earnings. I think that is something that ought to be looked into. Secretaries in schools are making good salaries while they are going to school. In fact, I am trying my best to get my daughter to start a profession that will net some outside income for the things she says she wants to buy while she is in school.

Mr. Naughton?

Mr. **Naughton**. Let me continue on through this fascinating application form.

What is a dependent student, according to your application?

Mr. **Kornfeld**. The current definition of a dependent student is a person who lives at home for more than 2 weeks. He is declared a dependent on the parents income tax return and has not received, I think, up to $600.

Mr. **Naughton**. Does it take all three of those factors to make an applicant a dependent? Or, does any one of them?

Mr. **Kornfeld**. Any one of the three. In other words, if you are shown on the tax return of your parents, you are a dependent.

Mr. **Naughton**. Or if you live at home you are a dependent. Or, I should say, if you live with your parents?

Mr. **Kornfeld**. Right.

Mr. **Naughton**. Let me give you another example. Let us suppose that I am no longer an illegal alien. I am a rock star earning $200,000 a year. My mother lives with me. I want a BEOG grant.

If I fill out the application, do I have to disclose my $200,000 a year?

Mr. **Kornfeld**. If you are a dependent student, you do not have to disclose your current earnings. It might be that that rock star is ripping us off. There is no question about that. I think that is sort of atypical. [Laughter.]

A couple of things have to be kept in mind when you talk about current earnings.

As I mentioned before, it is a good point and it is a point that has to be considered, but it is not that clear as to which way one ought to go because of a number of reasons.

First, the student who is working and then goes to school may not continue to keep earning that same rate that he might have in the past. You might be penalizing that student.

Second, as I mentioned before, if I happen to be more ambitious than my roommate, why should I get less of a grant than my roommate?

Mr. **Naughton**. In other words, if I earn my $200,000, I should not be penalized?

Mr. **Kornfeld**. Well, if you earned $200,000, I would hope that you would have saved some and you would have had some in assets. Then you would not have gotten a grant.

Mr. **Naughton**. You know how it is with us rock stars. I do not have any resources to report. [Laughter.]

Mr. **Kornfeld**. I think there is another point that has to be made clear. Keep in mind these programs provide up to 50 percent of total cost. So, that has to be important in this whole consideration.

Even though some of these things might cause certain inequalities, we certainly are very much concerned, as you are, to see what we can do about it.

The nature of the dollars that might be involved could be lessened because of the 50-percent cost.

Mr. **Naughton**. But you have no way of knowing, because you deliberately do not get the information.

Why not require everyone who applies to report their own income as well as their parents income. Then, if they fit within the category of people that you do not want to penalize, go ahead and do it knowingly instead of flying blind.

Mr. **Kornfeld**. It is a point we definitely should consider.

Mr. **Naughton**. Why should your application provide that everybody who lives with his mother does not have to report his income, no matter how much? It does not say it in that many words, but that is the effect of it.

Let us take another situation of someone who is living with a parent and also has a child that may be receiving AFDC payments. Are they required to report those AFDC payments under that particular category?

Mr. **Kornfeld**. And the parent is going to school?

Mr. **Naughton**. They live with the grandparent and the parent—who is also the child—is applying for a BEOG grant and is already receiving AFDC payments for the support of the grandchild.

Mr. **Kornfeld**. Who is going to school? I am a little confused. [Laugher.]

Mr. **Naughton**. The grandmother lives in the house. The daughter lives in the house and is applying for a BEOG grant. The grandchild also lives in the house. The daughter receives AFDC payments for herself and her own daughter or son.

Now, in filling out this application, would the daughter be required, if she follows the instructions, to disclose the fact that she is receiving AFDC payments.

Mr. **Kornfeld**. I think she might. It really is sort of complex. Again, a person who gets AFDC, a welfare recipient, is a very low, if not zero, income type family. Even though we think it is very important that all people report AFDC and VA and social security benefits, as the Secretary pointed out in his testimony, it may mean no difference in the size of the grant.

For example, you take the person who is on welfare. If that person does not report the AFDC payment, it is very likely there would be no difference in the size of the grant that person would receive.

Keep in mind that the way the formula works is that after you take both taxable and nontaxable income, you then have a series of deductions. Included in one of these deductions is, for example, the cost of living for a family, which is set up by the Social Security Administration.

For example, this year, for a family of four, that deduction came out to be sometning in the magnitude of $6,400. So before it would have made any impact on the size of the grant, that income would have had to be significantly higher than $6,400.

Mr. **Naughton**. I do not know whether this is the case or not, but supposing that the AFDC grant was figured in such a manner as to take care of what was considered to be all of the basic living expenses of the applicant.

Now, would there be an automatic living allowance added to the BEOG grant, regardless of the welfare?

Mr. **Kornfeld**. This gets back to the point in the Secretary's testimony where we have to start looking at the problems from a combined Government prospective. It is true that the way the programs are run now in the Federal Government, you could get multiple living grants. You can get one through the AFDC, you can get one through the BEOG program, et cetera.

Somehow, we have to look at these programs, which is the intent of the statement in the Secretary's testimony. We have to start looking at these in a coordinated, rational way and start making these programs mesh with each other which they do not do effectively at this point.

Mr. **Naughton**. Let us get back, then, to the application. You have indicated that you think the applicant in the circumstances we have described would be required to disclose the welfare income on the application.

Would that be in response to question 36?

**Mr. Kornfeld.** I think so. I must admit I am somewhat confused about the question.

But the way that question 36 is posed you are supposed to report the family's total nontaxable income. One aspect of that is the AFDC.

**Mr. Naughton.** Let us go back to the fine print.

Section E is the applicant's financial statement.

"Complete this section only if you have answered no to all questions in section C."

We go back to section C and question 9 in section C says: "Did or will applicant live with parents during the period of time under discussion?"

We have already said our applicant lives with her mother, so she answers yes to question 9. Since she did not answer no to all those questions, she is not required to answer section E.

**Mr. Kornfeld.** You make the point that the question needs to be improved. I would, however, like to add one point to that.

As you know, the BEOG application is one of many applications which a student fills out in order to get a BEOG grant. As you know, a student may have filled out a college scholarship service application, an ACT application, State applications, et cetera.

As compared to all these other applications—and I think if you have not done it, it might be of interest for you to do it—this is, by far, in my opinion, the more simple one, the more clear one, and requires significantly less data and answers than these other applications do.

I happen to have a daughter that is going on to college this year, and I must admit that I had her try to fill out one of these other applications, which she could not do. Then I tried and I had difficulty in doing that.

That is why it is obvious that we have to do something about this application.

**Mr. Fountain.** I was just going to ask you that question as I looked at this particular application. The main thing is to get the basic information in the simplest possible way.

**Mr. Naughton.** In 1976, the New York State auditors issued a report on the SEEK program, which is a grant program at the City University of New York. Their findings, as I recall them, were that of some 9,000 SEEK students, an estimated 3,200 were on welfare and 2,400 had failed to disclose all or part of their welfare income to the SEEK authorities and vice versa.

The auditors estimated that the total overpayments just on welfare and the SEEK grants, were $1 million a year. However, the likelihood is, I suspect, that many, if not most of those involved also may have had BEOG grants.

Now, since that audit was received by the New York Regional Office of Education in December 1976, has anything been done to ascertain the extent to which improper BEOG grants may have been obtained?

**Mr. Morris.** Mr. Kornfeld and I have spent about 6 hours altogether in New York in the last 2 weeks, since we knew this was a matter of interest to the subcommittee.

Meeting with our principals at HEW, both the Office of Education and Audit, and with the principals of CUNY, the State comptroller who made the audit you referred to, and the administrator of the TAP program in New York, we found, No. 1, that there had been a failure on the part of HEW, Office of Education, to follow through on that finding which reached them in December 1976.

This illustrates, in my opinion, the reason that Mr. Kornfeld's organization, which now has a field counterpart, is so very essential.

We found, second, however, that CUNY itself is under continuous audit by the State comptroller. He was not doing this for us. He was doing it because State money is in SEEK. He has been looking over their shoulder constantly since that audit.

They now have in place a computer matching system with the AFDC agency of New York City, which was done last year. They are preparing to do it again this year. The number of cases has dropped from 3,200, they estimate, to about 140.

It has taken 3 years to get there, but at long last they are there. We have an organization to keep monitoring it in the future.

Mr. NAUGHTON. Well——

Mr. MORRIS. I knew nothing about it until 2 weeks ago.

Mr. NAUGHTON. In May 1977, the State auditors in New York issued a report on the operating practices of Work Relief Employment Project, New York City Human Resources Administration. As part of this program, individuals for whom no job could be found, were enrolled on a voluntary basis in vocational training programs at commerical schools on contract with the Human Resources Administration. While enrolled in these programs, the individuals received a stipend covering transportation costs and lunch. HRA paid tuition directly to the schools as part of the contract costs. But the auditors found, and I quote:

> We found that most, if not all, student recipients were instructed to file for and obtain Federal BEOG funds. The BEOG grants are generally made to aid economically disadvantaged students sufficient in an amount only to meet tuition and other educational costs.
>
> Amounts paid to student recipients enrolled at the Technical Career Institute, one of the schools on contract with HRA and handling about 30 percent of all WREP and other HRA trainees, ranged from about $300 to $1,100 each and a total of $110,000 during 1974-75 and about $63,000, during 1975-76 were paid.
>
> We estimate that BEOG funds awarded to students and about 30 other schools on contract with HRA were comparable. Our audit indicated that none of these students returned the BEOG payments to the Federal Government, nor did they turn them over to HRA, even though all their educational costs had already been paid for by HRA.
>
> Therefore, HRA should now consult with the U.S. Department of Health, Education, and Welfare officials to explore ways in recouping BEOG grants improperly paid to recipients and apply them in repayment of educational costs paid for by HRA.

These events took place, I guess, in 1974-75, and to some extent, 1975-76. The audit was issued in May 1977. Up until the last 2 weeks had HEW done anything to look into this situation?

Mr. MORRIS. I am not aware of this. I would be glad to get all the facts for you.

Mr. NAUGHTON. Fine, thank you.

[The following information was subsequently furnished:]

## NEW YORK CITY HUMAN RESOURCES ADMINISTRATION

### AUDIT REPORT ON THE OPERATING PRACTICES OF THE WORK RELIEF EMPLOYMENT PROJECT AUDIT REPORT NYC-49-76

**Date of Audit Report—May 5, 1977.**

**Audit Performed By—Office of the State Comptroller, Division of Audits and Accounts.**

Date of HEWAA Transmittal Letter to—August 30, 1977. Acting Commissioner, New York State Department of Social Services.

HEW Audit Agency—Audit Control Number—02-75024.

Date the report was sent to HEW action official—August 30, 1977. Deputy Commissioner, Bureau of Postsecondary Education.

This report covered the operating practices of the Work Relief Employment Project (WREP) of the New York City Human Resources Administration (HRA) from its inception on June 1, 1973 to February 28, 1976. The WREP was designed, primarily, to place employable persons receiving home relief on public jobs, but also offered vocational and academic training. Training programs were administered by WREP's Office of Employment, Planning and Training. Vocational courses were contracted for with private trade schools under the State Aid to Vocational Education program. Academic training offered the home relief recipients an opportunity to obtain a High School General Equivalency Diploma (GED).

The report identified several problems pertaining to the administration of the Work Relief Employment Project. One area of the report impacts on the Public Assistance Program which especially affected the Federal Basic Educational Opportunity Grant (BEOG) payments to students for tuition and the educational costs.

Specifically, the report disclosed duplicate payments totaling about $173,000 paid to students enrolled under the Work Relief Employment Project and also receiving BEOG Grants. None of the students returned the duplicate grant payments to the Federal Government or to HRA even though all educational costs had already been paid for by HRA.

The auditors recommended that "negotiations with the HEW should be pursued to ensure receipt by the students of all BEOG and procedures adopted to provide for the usage of such grants to meet the educational costs of the training programs."

In response to the auditors recommendation, officials from New York State Department of Social Services questioned the propriety of the recommendation. They feel that adjustments, if required, should be made to the other programs in the event that BEOG grants are available to recipients. The New York State Higher Education Services Corporation has been assigned the responsibility to coordinate utilization of these programs in order to maximize the availability and use of all Federally funded grants.

A letter dated September 30, 1977 from BSFA directed to the New York State Department of Social Services asked for additional information to assist in determining the thirty institutions participating in the project and the name, address, and social security number of each student/recipient involved. This information which is not contained in the audit report, is needed before any action can be taken to attempt a recovery of the Basic Grant payments. The Department of Social Services' response on October 23, 1977, indicated that this information was not available at their office but could be obtained from the HEW Audit Agency.

On November 3, 1977, BSFA contacted the Region II Audit Agency and were referred to Mr. Orestes Cuezas of the State Auditor's Office. He indicated that this information would be forwarded to us as soon as possible. The information was never received and no follow-up occurred on the part of BSFA because of a change in personnel assignments. On August 14, 1978, BSFA called the Region II HEW Audit Agency and requested assistance in getting the desired material. The information was received on September 14, 1978, and is now being analyzed.

In order to prevent a recurrence of a lack of prompt follow-up in the future, BSFA has strengthened its audit review procedures to insure that timely action involving follow-up on audit responses takes place.

Mr. FOUNTAIN. I think the point Mr. Naughton is making is a point that we are concerned about and that is that the money which governmental agencies spend do not belong to them in a private capacity. It belongs to the taxpayers.

I get as mad as anybody else when I start paying my taxes and think where some of this money is going and how it is being spent.

It is not like the situation in the parable which Jesus told in which an employer had a certain amount of work to be done or otherwise his crops were going to be ruined. He went out and employed people and had some who worked all day. He hired one man who worked 2 hours. But he paid them all the same thing. There was complaint of discrimination against the employer, but in that situation, the employer was paying out his own money. He was not paying out mine, yours, or somebody else's.

But in this case we are dealing with money which we have extracted from the American people which we have a serious responsibility to protect.

I do not know whether you read the New York Times series of issues on cost of fraud in Federal programs. It was placed by experts at $12 to $25 billion. That includes all Federal grant-in-aid programs.

It may make you feel a little better if you read it and find out that HEW is not the only agency that has problems. [Laughter.]

But I want to mention one factual situation to see if this could happen in any of your programs.

First, let me read an excerpt from the New York Times article:

> Taken together, they present a picture of thousands of persons, many of them well educated middle class citizens engaged in schemes that range from penny ante abuses of food stamp programs to alleged fraud in massive multimillion dollar grain deals.
>
> They include * * * and I will not mention the man's name because I imagine he has had enough problems * * * a former employee of the Department of Transportation who is charged with embezzeling some $856,000 by putting his own name on checks intended for the construction of a subway in Atlanta. Asked by a judge how this could happen, the Federal prosecutor said in reply: "Your Honor, he posed as a subway system." [Laughter.]

That is how he got the money.

Do you have any programs under your jurisdiction whereby some of these phantom students could do that sort of thing?

Mr. **Califano**. I hope not, Mr. Chairman. [Laughter.]

Obviously in the phantom student situation, they are posing as students and obviously there is opportunity in many of these programs.

Most of our funds in the education area, particularly, are paid out, by computer, by direct transfer to the institutions themselves so there would be less opportunity for that.

Some of the States have had, with respect to their AFDC programs, problems with State employees who placed themselves on the welfare rolls, as you know.

Mr. **Fountain**. On the point that I was attempting to make awhile ago when I said we were dealing with what belongs to somebody else, the writer says:

> One reason that estimates of the amount of fraud are so vague is that many government officials refuse to call fraud what it is, preferring to dismiss it as an error or abuse.
>
> Another is that Federal audit cycles are so long that often fraud is not detected until years after it has taken place.

In the case of this employee whom I am talking about from the Department of Transportation, a program that the money was taken from was not scheduled to be audited until 8 years later, though the applicable statute of limitations runs only 5 years.

Mr. **Califano**. That, Mr. Chairman, is a serious problem across the Federal Government. We do not have enough auditors. We do not have enough funds for auditing. That, I think, is not limited to any one department.

Mr. **Fountain**. Let me close with this one other note. It says: "It was a fluke that we caught him," said one Federal prosecutor. "If he had not aroused so much suspicion by spending so much money, the statute of limitations would have lapsed before he even knew the money was gone." [Laughter.]

Mr. **Duncan**. Mr. Chairman, with your permission, the minority would like to submit some questions for the record.

Mr. **Fountain**. Without objection, so ordered.

[The questions referred to and the answers thereto appear in app. 3.]

Mr. **Fountain**. Let me thank you, Mr. Secretary, Mr. Morris, and Mr. Kornfeld for your presence here today. You have been very helpful. You have given us some extremely valuable information.

As Mr. Levitas indicated, Mr. Secretary, I think you have shown a concern for the taxpayers' money. You have indicated the recognition of your responsibility in this area. I hope the same responsibility will be recognized in all the other areas over which you have jurisdiction.

We appreciate your coming. Your answers have been forthright.

We hope that you will supply us with the additional information which we have requested. I can assure you that we will keep in touch, not only with your agency, but with some other under the jurisdiction of this subcommittee.

I do not know how many more years I have left to be in Congress. I do not know how much longer my constituents will let me stay here, but during that time I expect to concentrate much of my attention in this area of waste and extravagance and the unnecessary spending of my money as a taxpayer, as well as the money of my constituents whom I represent.

Thank you very much. We appreciate your presence.

Mr. **Califano**. Thank you.

Mr. **Fountain**. The subcommittee stands in recess, subject to the call of the Chair.

[Whereupon, at 1:03 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# STUDENT FINANCIAL ASSISTANCE PROGRAMS

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THURSDAY, AUGUST 3, 1978

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:25 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, John W. Wydler, Clarence J. Brown, and John E. (Jack) Cunningham.

Also present: James R. Naughton, counsel; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. Fountain. Let the subcommittee come to order. Let the record show that a quorum is present.

We are pleased to have representatives of HEW with us for questioning this morning in connection with the student financial assistance program. We will continue where we left off the other day.

As we all know, the Veterans Administration has a very large educational benefits program. Apart from that, Mr. Kornfeld, are there any other really large student financial assistance programs which are administered by Government agencies outside of the Office of Education?

## STATEMENT OF LEO L. KORNFELD, DEPUTY COMMISSIONER FOR STUDENT FINANCIAL ASSISTANCE, OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. Kornfeld. Mr. Chairman, in addition to the Office of Education and the Veterans Administration, the Social Security Administration has an educational benefit program. Also the Law Enforcement Assistance Administration has student financial assistance programs. There are also some programs in the Public Health Service for students in the health professions, such as nurses and medical doctors. The CETA also has a type of student financial assistance program.

There are a number of these other student financial aid programs. As the Secretary testified last week, one of the problems that we are working to resolve is to determine how to more effectively coordinate these various programs. We are working toward a more rational process than the current system provides for the recipient, be it the institution or the student.

Mr. **Fountain**. Obviously there are ways in which under certain circumstances a student could be receiving benefits from a number of these programs.

Mr. **Kornfeld**. Yes, there are.

Mr. **Fountain**. Are you in a position to express an opinion as to the approximate amount of annual expenditures involved in these other programs to which you just made reference?

Mr. **Kornfeld**. I just have a rough estimate, Mr. Chairman. I think we are talking about a figure in the vicinity of $11 billion a year, including the Office of Education.

Mr. **Fountain**. Are you in a position to express an opinion and give an estimate of the amount of annual expenditures of other programs you testified about?

Mr. **Kornfeld**. My understanding, Mr. Chairman, is that the Veterans Administration conducts about a $2 billion program, and Social Security conducts about a $2 billion program.

Mr. **Fountain**. Are there any other Federal programs under which tuition and living expenses at postsecondary institutions will be paid for students, and, if so, do you have any idea how much those programs might involve, and how many there are?

Mr. **Kornfeld**. There are some special programs. For example, the NROTC-type program, where students obligate themselves to serve in the U.S. Navy, in return for having tuition and expenses paid for by the U.S. Navy. There are some of those type programs. Most of them, relatively speaking at least, are rather small.

Mr. **Fountain**. Has HEW made any effort to find out, to the extent you need to know, the number of these programs and where they are?

Mr. **Kornfeld**. Yes; we have. About 6 months ago we conducted a rather comprehensive study of every student financial aid program in the Federal Government, including the size of the program, the number of recipients and some thoughts about how these programs might be better coordinated.

Mr. **Fountain**. I wonder if you would provide for the subcommittee a list of all the programs and a copy of the study?

Mr. **Kornfeld**. Yes, we will.

[The following information was subsequently provided.]

The study mentioned has been provided to the committee.

Following is a list of the major student financial aid programs administered by agencies other than the Office of Education. We do not know whether assistance from these programs may be used for living expenses.

| *Program* | *Administrative location* |
|---|---|
| Indian education—colleges and universities. | Interior. |
| Law enforcement education program and student financial aid. | Justice. |
| Law enforcement assistance—internships.. | Do. |
| Educational exchange Fulbright-Hays program. | Department of State. |
| Veterans educational assistance | Veterans Administration. |
| Dependents educational assistance | Do. |
| Post Vietnam era veterans educational assistant program. | Do. |
| Public Health National Health Service Corps scholarship program. | HEW/PHS. |
| Professional nurse traineeships | Do. |
| Nursing scholarships | Do. |
| Nursing student loans | Do. |

**Mr. Fountain.** Any time members have a relevant question, don't hesitate to ask it.

**Mr. Wydler.** If you would, Mr. Chairman, it seems to me where you have this problem of a possibility that people are on more than one program, and you don't know about it, are the Federal applications forms for these programs drawn in such a way that the right questions are asked about this so that if somebody gives the wrong answer, they are committing a Federal crime? That might be one way to make people think twice about doing that.

**Mr. Kornfeld.** Yes; the forms definitely address this. If an applicant provides information that is incorrect or fraudulent, we can take action. As a matter of fact, we have initiated some of that already--for example, where students have just committed fraudulent acts in areas like getting more than one grant, which is obviously not a simple mistake. We have initiated certain actions of that sort already.

I think it is more than just a matter of forms design, however. One of the things that we have initiated as the Secretary testified last week, is a series of computer matches to determine who, in fact, is getting benefits besides benefits from the Office of Education. We are now working to develop a system where this will be a routine procedure—where we will routinely do both these kinds of matches and followup to assure that the problems of students who receive multiple benefits to which they were not entitled is corrected.

**Mr. Wydler.** Well, maybe I should be more specific. I understand what the general law is in relation to making misstatements to the Federal Government, that may be a very hard thing for a prosecutor to do anything about. If you give a man a 22-page form, which you generally tend to do, and he has to answer a tremendous number of questions and later, on page 4, he said something that wasn't right, that is one thing.

It is quite another thing to hand a man a form which says in some very heavy printed lettering, "List here any other Federal programs you are receiving money from," and under it you print, "A misstatement of fact is a violation of Federal law and subject to criminal penalties." That makes a big distinction when somebody is filling out a form.

What I am suggesting is that I think you could obviate some of the problem if you would design the forms in such a way that the person would not want to make that misstatement. It would be clear to him and anybody else. If the problem arose that he was lying, and it was a material misrepresentation and he knew it was when he made it, the prosecutor, looking at it, would be able to determine "we have this guy cold."

That is the practical answer when you come down to it. The decision has to be made whether this man did it intentionally or nonintentionally, or so on.

[The following supplemental statement was subsequently provided:]

Insofar as the term "Federal sanctions" refers to Federal criminal sanctions, the most relevant statutory provision is 18 U.S.C. 1001. That section states: "Whoever, in any matter within the jurisdiction of any department or agency of the United

States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than five years, or both."

1. Under this provision it would appear that if a student merely made incorrect statements on a form, whether Federal or nonfederal, without knowing that the statement was incorrect, he or she would not violate the provision.

2. It is our opinion that the above section applies to the situation where a student applies for a Basic Educational Opportunity Grant using a nongovernmental form and reports fraudulent information on that form.

Under a Basic Educational Opportunity Grant program (20 U.S.C. 1070a) there is a direct relationship between the government and the student. One of the major factors determining the size of a student's grant is the amount of his expected family contribution. The Office of Education calculates this amount on the basis of information supplied by the student. The Office of Education mails to the student a "Student Eligibility Reports" which includes the amount of the student's expected family contribution. The student applies for a Basic Grant by submitting this form to the institution he is attending.

Because the Basic Grant program involves a direct Federal grant to a student, and because the size of the grant is directly related to the student's expected family contribution, it is our view that if a student knowingly filed false information and thus received a Basic Grant in an amount greater then he would have received if he had submitted accurate information, he would violate section 1001 of title 18. It is, in our opinion, irrelevant whether the form the student filled out to have his expected family contribution determined was a nonfederal form.

3. It is less clear that 18 U.S.C. 1001 applies to the situation where a student submitted fraudulent information on a nongovernmental form that was later used by an institution in awarding funds under the Supplemental Educational Opportunity Grant (20 U.S.C. 1070b et seq.), the College Work-Study (42 U.S.C. 2751 et seq.), or the National Direct Student Loan (20 U.S.C. 1087aa et seq.) programs. Unlike the Basic Grant program, where there is legally a direct Government-student relationship, funds are awarded by the Office of Education under these programs to institutions of higher education, which in turn award the aid funds to students.

Mr. KORNFELD. Along those lines, after the hearings last week, Secretary Califano, sent a memo to me which I would like to read in the record, if you don't mind, and he said:

> As a result of preparation for the recent Fountain subcommittee hearings on student assistance programs and discussions at those hearings, I have concluded that the BEOG's application form is in need of a top-to-bottom review. In terms of simplicity, clarity, and consistency, it appears that the present form requires substantial improvement.
>
> I am, therefore, asking that you proceed forthwith with your review and submit your recommendations for revising the form on or before September 30, 1978. Please work with the Assistant Secretary for Management and Budget and the Inspector General on this effort.
>
> In addition, I would like you to explore the possibility of developing a single application form for the BEOG's and all student assistance programs administered by the Office of Education. Please give me a progress report on these efforts on September 30, 1978. I want to make clear, however, that I do not want consideration of this more general issue to delay an expeditious review and revision of the BEOG's application form.—Signed Joe Califano.

Mr. WYDLER. That sounds helpful, and, Mr. Chairman, I just would suggest that you might think along the lines I am suggesting to you, because there are certain key questions, and if they are highlighted in the application form and stand out and are associated with the warning language of what the misstatement might be, I think most people will shy away from doing it. But if you just throw it in as kind of a question on a long form, it is very easy to forget something or put it aside, and a prosecutor will not be in a good position to follow up on that circumstance.

Mr. KORNFELD. I agree with you. However, one must always keep in mind that these forms are filled out by approximately 5 million people. One of the problems you have, from the perspective of the student and parent, is that the forms are overly complicated, they are very difficult to understand, and there are too many of them. This is why we feel, as pointed out by the Secretary, that we just have to do something in this area. You have to also keep in mind that many of the people filling out these forms are from families who may have problems understanding the often complex language and intimidating format. I have a daughter going to college this year, and I asked her to fill out one of these forms. She was not able to, and I tried and I had trouble.

When you make changes in these forms, a perspective that always must be kept in mind is that you can't make them so complicated that you inadvertently cause abuse, simply because people don't understand what you are asking. As a result, they put information down that they think is the correct answer to the question you are posing to them.

Mr. FOUNTAIN. I think Mr. Wydler has made an extremely good suggestion, because many applications already, for jobs and things of that kind, have a statement indicating that the falsification may impair the person's getting the job or result in perjury or some other violation of the law.

Has any effort been made to find out who prepared these forms that are so complicated that even you had difficulty reading them? It seems to me the person that does that sort of thing ought to be placed somewhere else.

Mr. KORNFELD. These forms are revised each year. I must also tell you that, of all the forms used for need analysis for student financial aid, the Federal Government should be proud of the fact that this is one rare case where the Federal form is significantly less complicated and easier to understand than any of the other comparable forms. I am not taking credit because this all happened long before I came the the Bureau.

Mr. FOUNTAIN. I have had constituents catch me when I was in a store someplace and bring me a regulation and say, "Will you read that paragraph and tell me what it says?" And I have read it, and I couldn't tell them what it said. That is ridiculous. Whoever writes that kind of paragraph ought not to be in government, because government is supposed to be understanding and humane.

I imagine many students fill out applications for programs with good intentions, and some end up getting funds from several of them without realizing they are committing a fraud because they are trying to get money wherever they can.

Mr. KORNFELD. For the record, I should clarify that the form my daughter was filling out was not the Government form. It was another one issued by a private agency which conducts need analysis.

I also want to add that this was accomplished before I arrived, so I am not patting myself on the back here. We now have a system which reduces the reporting burden on the public in filling out these complicated forms. Some 70 percent of all students who apply for basic grants do not even have to fill out a Federal form any more. What they do is fill out the regular forms required by their institutions. Then we extract the data needed to determine their eligibility for a basic grant. Some 2½ million people in the past had to fill out the basic grant form, plus other required forms. Now they no longer need to fill out the Federal form at all. I think this is an accomplishment.

Mr. WYDLER. Let me point out that with that procedure, what you have effectively done is taken away from the Government the right to rely on its statutes which protect the Government from misstatements made to it.

Mr. KORNFELD. We worked closely with our lawyers while the entire procedure was put in place. The same kind of statement about submitting fraudulent statements, et cetera, is also included on those forms, exactly as it is on the Federal form.

Mr. WYDLER. I would like to be the lawyer for a defendant there. I think you would have a hard time saying if I filled out a form to a university that was false that the Government could rely on a statute which said a false statement to the Government was a crime. I don't follow that, but it may be possible.

Mr. KORNFELD. Students understand that, even if they don't fill out the Federal form, part of the information on that form will be sent to the Government to determine eligibility for a BEOG grant. As a result, they sign a statement saying first, that we can validate the information provided and, second, that they are subject to Federal sanctions if they provide fraudulent information.

Mr. FOUNTAIN. What information do you rely on if he has no form to fill out?

Mr. KORNFELD. It is basically the same information that is on the Federal form. In the past, students going to an institution might end up filling out three forms—the Federal basic grant form, another need-analysis form for institutional aid, and a form for State aid. Basically all of these forms include much of the same information. The other forms require even more information than the Federal basic grant form requires. We now have a system which allows us to extract that information which we need to calculate the BEOG grant from other forms.

Mr. FOUNTAIN. You spoke of coördination awhile ago. What arrangements, if any, do you have, or are you making for coordinating your activities with those of the Veterans Administration? Within the Bureau of Student Financial Assistance, what official, if any, is charged with maintaining liaison with the Veterans Administration?

Mr. KORNFELD. The liaison in the past has been rather informal, which is not satisfactory. As the Secretary testified last week, we are now going to initiate a formal relationship with these other agencies and try to work out with them a more rational way to deliver student financial assistance. I believe the Secretary has or will be contacting the various agencies to notify them of our intent.

## STATEMENT OF THOMAS MORRIS, INSPECTOR GENERAL, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY LAWRENCE LIPPE, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS; RAYMOND A. BEAUDET, ASSISTANT DIRECTOR, AUDIT AGENCY

Mr. **Morris**. May I also comment, Mr. Chairman?

Mr. **Fountain**. Yes.

Mr. **Morris**. As you know, your subcommittee is stimulating the growth of the Inspectors General among the principal agencies. We have met now several times with our counterparts in the major agencies, including VA, Agriculture, and Labor, each of whom has an interest in this particular field. We are beginning dialogs regarding how we can work together, paralleling what Mr. Kornfeld will be doing.

Mr. **Fountain**. Which prompts me to ask you this question. I was talking to Mr. Naughton last night and discovered you still have other investigative units within HEW. Now, are you coordinating your own activities to prevent unnecessary duplication and also are you obtaining complete information so you have an efficient and honest operation?

Mr. **Morris**. Mr. Chairman, I believe we have accomplished this in the past year to the extent of actually settling on a formal memorandum of understanding where we do not take over functions. We are quite pleased with the relationships that now exist.

Mr. **Kornfeld**. I might add to Mr. Morris' statement, as far as the Bureau of Student Financial Assistance and the Inspector General's office are concerned, we have had a series of meetings. Also we have, in writing, an understanding of how we are going to work. We have been working together and, I think, working rather well.

Mr. **Fountain**. Have you had meetings between Bureau personnel and VA personnel since January 1, 1978, in connection with coordination or other problems?

Mr. **Kornfeld**. We have had some meetings.

Mr. **Fountain**. I wonder if you would submit to the subcommittee a list showing the date, participants, and the subject matter of each of such meeting, informal or otherwise?

Mr. **Kornfeld**. Yes, sir.

[The following information was subsequently provided:]

### MEETINGS AND CONFERENCES, VETERANS ADMINISTRATION

Date: March 2, 1978.

Subject: Problem schools—V.A. compliance reports.

Participants: Ralph Cross, Compliance Section, V.A., Washington, D.C.; Larry Newman, Compliance Investigator, BSFA; and Walter Kischefsky, Compliance Analyst, BSFA.

Date: March 13, 1978.

Subject: Problem school—fraud and questionable sales practices.

Participants: Larry Newman, Compliance Investigator, BSFA; Walter Kischefsky, Compliance Analyst, BSFA; and Jack Nagan, Staff Attorney, V.A. Regional Office, San Francisco, Calif.

Date: May 15, 1978.

Subject: List of Problem Schools.

Participants: George E. Arnstein, Confidential Assistant to the Office of General Counsel, V.A., Washington, D.C.; Larry Newman, Compliance Investigator, BSFA; and Walter Kischefsky, Compliance Analyst, BSFA.

Date: June 2, 1978.

Subject: Cosmetology schools.

Participants: Larry Newman, Compliance Investigator, BSFA; Richard Hastings, director, Division of Certification and Progam Review, BSFA; Peter Voigt, director, Division of Policy and Program Development; Thomas D. Morris, Inspector General, OIG; Sherry Gardner, OIG, Office of Health Care and Systems Review; Mary J. Calais, OIG, Office of Health Care and Systems Review; Nathan D. Dick, OIG, Deputy Assistant for Investigations; and Raymond A. Beaudet, OIG, Audit Agency.

Other representatives: Bernie Ehrlich, Cosmetology Accrediting Commission, Social Security Administration, Department of Labor, Veterans Administration, Public Health Services/HEW.

Date: July 12, 1978.

Subject: Inter-Agency Cooperation.

Participants: Thomas D. Morris, Inspector General, OIG; Gene Mathews, OIG, OGC; Russell Allen, OIG, Audit Agency; Sherry Gardner, OIG, Office of Health Care and Systems Review; Stephen Jenks, BSFA; Irene Schaffer, VA; Daniel Schram, VA; Mary J. Calais, OIG, Office of Health Care and Systems Review; Raymond Beaudet, OIG, Audit Agency; Michael Aulicino, Compliance Investigator, BSFA; and Walter Kischefsky, Compliance Analyst, BSFA.

Date: July 21, 1978.

Subject: Problem school—fraud and abuse.

Participants: Larry Newman, Compliance Investigator, BSFA; Walter Kischefsky, Compliance Investigator, BSFA; Ralph Cross, Compliance Section, VA, Washington, D.C.; Joseph Antolin, Law Clerk, Neighborhood Legal Services, Washington, D.C.; and Roger Davis, Lawyer, Neighborhood Legal Services, Washington, D.C.

Date: July 26, 1978.

Subject: Problem school—alleged forgery by school officials.

Participants: Walter Kischefsky, Compliance Analyst, BSFA; and George Miceli, Educational Liaison Representative for Detroit, Regional VA Office.

Date: August 3, 1978.

Subject: Problem school—alleged false certification.

Participants: Walter Kischefsky, Compliance Analyst, BSFA; Larry Newman, Compliance Investigator, BSFA; and Ron Scoggins, Compliance Representative, St. Peterburg, Regional VA Office.

## MEETINGS HELD AFTER JANUARY 1, 1978, BETWEEN VA AND HEW

May 4, 1978: Meeting held between HEW's OIG staff and VA's OIG staff.

Purpose: To discuss additional ways that the two agencies—and OIG staffs—can work cooperatively.

Present: HEW—Thomas D. Morris, Inspector General; Nathan Dick, Deputy Assistant Inspector General for Investigations; Ladd Hamilton, Special Assistant, Mike Nelson, Health Care and Systems Review Staff (HCSR); VA—Al Reynolds, Inspector General; W. E. Busbee, Director Internal Audit Service; William L. Rettew, Director of Investigations. The two Inspector Generals agreed that a fall 1978 seminar to be jointly developed would be useful. Plans are underway to implement such a seminar.

June 6, 1978: Meeting held between HEW's OIG Health Care and Systems Review staff and VA's Audit Agency.

Purpose: To discuss ways the two audit agencies can work together. Discussion centered on the problems associated with student financial aid, and multiple billing for physicians services in VA and HEW.

Present: VA—W. E. Busbee, VA Audit Service Director; HEW—Dr. Mike Nelson, and Mrs. Sherry Gardner, HCSR staff.

June 12, 1978: Meeting called by HEW to bring together the various major Federal Student Financial Assistance Programs: Agencies represented included VA; Department of Labor; HEW's Social Security Administration Title II program; HEW's Public Health Service Health Manpower and Loan Programs; HEW's Bureau of Student Financial Assistance; and OIG staff from Audit, Investigations and HCSR.

Purpose: To review together the scope of the various student financial assistance programs administered by the different agencies present; and to come to an agreement whereby these agencies would work together on a regular basis in the future to (1) promote better coordination of student benefits, (2) improve the antifraud and abuse activities of the various agencies.

Present: HEW's OIG—Thomas D. Morris, Inspector General, Raymond Beaudet, Assistant Director, HEW Audit Agency; Bryan Mitchell, Assistant Inspector General for Health Care and Systems Review; Mrs. Sherry W. Gardner, and Mrs. Mary Jane Calais, HCSR; Mr. Leo L. Kornfeld, Deputy Commissioner, BSFA; SSA—Don Roberts, Mamie Cavell, and Bob Brown; PHS—Donald Parks; DOL—Rocco D'Marco and Richard Ross; VA—June Schaeffer and W. E. Busbee.

July 6, 1978: Meeting held to discuss proposed match of computer files of VA's Educational Benefits file and SSA Educational benefits files against HEW's Basic Educational Opportunity Grant Program file.

Purpose: To discuss the proposed match to determine what steps were necessary to permit the match.

Present: VA—Mrs. June Schaeffer, Education and Rehabilitation Service, David Schramm, Internal Audit Service; HEW—Mr. Thomas D. Morris, Inspector General; Mr. Raymond Beaudet, Assistant Director, HEW Audit Agency and Russell Allen, Audit Agency staff; Mrs. Sherry W. Gardner, HCSR; Mrs. Mary Jane Calais, HCSR; Gene Matthews, Office of General Counsel, OIG; SSA—Marty Smedley, Sherry Pollack, and Andy Garrus.

Mr. FOUNTAIN. Mr. Cunningham?

Mr. CUNNINGHAM. Mr. Kornfeld, I have been sitting here listening to you talk about redoing the forms. I guess my first question is why are you going to redo forms? What is the motivation for redoing forms?

Mr. KORNFELD. Each year these forms are reviewed, based on comments we get, for example, from the field and the Congress, such as the inputs that we are getting from you and other people on this subcommittee. We also always try to keep in mind that our major objective clearly is trying to make the form simple and clear for the persons filling it out. Often that has to be balanced against the potential fraud problem. These forms are reviewed and revised annually. It has been going on for years now and will continue because we do learn ways to improve the form.

Mr. CUNNINGHAM. Mr. Chairman, if I may continue, I guess what I am trying to get at is to me it doesn't appear that there has been a problem in getting these dollars to those who need them. The problem has been collecting the dollars, and if redesigning the form doesn't have that goal in mind, I would suggest that it should. The other thing I would be interested to know is what specifically you have extrapolated from the learning curve of bad repayments, be they private individuals or Federal employees, and I don't attribute this to you, but this has been an ongoing problem, so that that input is included in this.

I frankly am not convinced that making forms easy to fill out is the best purpose. I am more concerned about knocking off this tooth-fairy image of these dollars being available because they are taxpayers' dollars, and I am concerned about the several billion dollars that are now uncollectable.

Mr. KORNFELD. When I was answering these questions, Mr. Cunningham, I was referring to the BEOG form, which is only used for the grant program—the basic grants program. The entire subject of collections is different and I agree that forms are not going to help us in that instance. We are also working there. However, one of the problems we have, unfortunately, is that there are multiple forms which people have to use to apply for a loan. This is just not the way things ought to be, and we are trying to correct that problem as well.

Collecting loans is an entirely different matter. There, and I think the Secretary testified regarding this, there are a number of factors that have caused this problem over the years. What we have to do is keep moving in the direction that we are moving to improve collections.

We have had some initial successes in getting people into repayment. As mentioned last week, Congress has authorized our reprograming request which will allow us to hire more people to collect our defaulted loans. Therefore, we expect that our collection effort will increase. I should add that the increased collection up to this point has been accomplished largely by people who have been in the Bureau right along. Hopefully, as we get more people, we will be able to show more significant results. In addition, we will have a contractor in two regions—San Francisco and Atlanta.

In addition to that, we are running a rather extensive skip-tracing service which addresses part of the problem. At this point, we don't know where about 50 percent of the people who are in default in the guaranteed student loan program live. Through the motor vehicle bureaus and the Post Office, et cetera, we are now finding more current addresses for these persons and actually going out and starting to collect on these loans. If, once we find the borrower, he or she is nonresponsive, we turn the case over to the U.S. attorney.

I think it is that kind of action conducted consistently and continuously that will change the environment in this country to a point where students will clearly understand that a loan has to be paid back. I think that time will demonstrate that that is the attitude that people are already beginning to have and I also think that there will be even more of a change as time proceeds.

Mr. **Wydler**. Hooray.

Mr. **Fountain**. Have you obtained information from the Veterans Administration showing the amount of money VA is providing for students of schools which also have students receiving HEW financial support?

Mr. **Kornfeld**. No, sir.

Mr. **Fountain**. Wouldn't it be a good idea to seek that information?

Mr. **Kornfeld**. There is no question that we have to do much more in working with the Veterans Administration. The two agencies are now going down different paths. The Veterans Administration administers a large program and is now initiating a new loan program. According to the press reports, they are also having problems with their loan program. We have to work much closer with them to coordinate our efforts.

Mr. **Fountain**. I am hopeful that our questions here, though limited because of time, will prompt you to think of other areas in which you will take a look to make sure these programs are made efficient, economical, and responsible, and that funds provided are used for the purposes for which they are intended.

Mr. **Kornfeld**. As you know, Mr. Chairman, the statutes provide for some duplication, particularly with the Veterans Administration. For example, the law requires that we only consider half of the benefits that a veteran gets in determining the basic grants award. So some of this duplication is required by statute and, obviously, unless the law is changed——

Mr. **Fountain**. I wish you would bring those situations to our attention, and then we can refer them to the appropriate committee for its consideration, because I think these are matters that are of concern.

[The following statement was subsequently provided:]

In the basic education opportunity grant program, the law requires that the following be considered as income in determining family contributions: (1) Social Security benefits received by (or on behalf of) a student which would not have been paid if he were not a student; (2) one-half of any amount paid the student under the GI Bill; and, (3) one-half of any amount received under the Widows and War Orphans benefits program administered by the Veterans Administration.

In addition, veterans are automatically considered to be independent students for purposes of determining need for National Direct Student Loans.

There may be other areas of legislatively prescribed "overlap" and these will be identified through two efforts we are undertaking—the reauthorization of student aid programs and our efforts to ensure that no students receive more than 100 percent of their need under Federal programs.

Mr. **Fountain**. Do you have arrangements in effect for sharing information with the Veterans Administration concerning schools in which you both have an interest?

Mr. **Kornfeld**. There is no formal arrangement. Whatever coordination is done is done informally, Mr. Chairman.

Mr. **Fountain**. Who is it done by?

Mr. **Kornfeld**. Well, for example, in a number of cases I know of personally, where we have had problems with a school, we would learn that the Veterans Administration is having a similar kind of problem. I have usually seen that kind of information included in either program review reports, or other documents. This coordination is mostly achieved by someone in my office calling someone in the Veterans Administration to find out about the problem.

Mr. **Fountain**. Don't you think it would be a good idea to have a memorandum of understanding between you and the Veterans Administration which gives you a sense of responsibility to do this sort of thing rather than an informal conversation?

Mr. **Kornfeld**. It is clear to me that we have two major projects in front of us. We have to continue cleaning up our own house and assuring that our programs are running the way we all want them to run so that they serve the various publics they were intended to serve and, in fact, are serving now, while minimizing the problems that exist.

Simultaneously, we have to work with these other agencies, including the VA, and develop a much more rational approach to student financial assistance from the total perspective of the Federal Government, not just in the Office of Education.

Mr. **Fountain**. I quite agree with you, and I think some kind of understanding should be in writing so that everyone knows what the responsibilities are. These informal talks involve my money. I think of myself as a taxpayer as much as my constituents these days, because when I file my return—State, local and elsewhere—I go through the same process everybody else does, and I get angry. So, when my constituents write me and complain, they are expressing my sentiments, as well as theirs.

Are your program review schedules coordinated with those of other Federal agencies? Do you have any coordination arrangement with any other Federal agency other than informal conversations? If you have, we would like you to provide a list of such agencies, showing the date, participants and subject matter of any meetings held since January 1, 1978. If you haven't, we would like you to submit any proposals you have in mind concerning what you are thinking about doing, because this is something that is going to have to be done, and it could well prevent the unnecessary expenditure of hundreds of millions of dollars.

Mr. **Kornfeld.** We will submit those.

[The following statement was subsequently provided:]

We have not established any formal ongoing process or held formal meetings for coordinating program reviews with other Federal agencies. Of course, there are times when serious problems have been brought to our attention through other organizations or agencies and coordinated reviews have been conducted. Similarly, we have, on occasion, become aware of problems involving other agencies and organizations and have alerted these other parties to the problems as well as providing for them to be kept informed of our findings.

Actual coordination of reviews is more appropriately a requirement of compliance activities where other investigative bodies may share an interest in a particular school. We do have a mechanism in place for ensuring that type of coordination through the Early Warning Tracking System as well as a "checklist" of agencies and organizations contacted prior to opening a compliance investigation.

The following meetings were held after January 1, 1978 between other Federal agencies and HEW:

1. January 11, 1978: Meeting was held between HEW's OIG staff and SSA staff. Purpose: To determine what SSA information, if any, was available for use by the Inspector General's office when conducting various assignments on the Student Financial Aid Programs. Present: Frank DeGeorge, SSA, Bob Harris, SSA, Phil Nathanson, SSA, Tim Robinson, SSA, Raymond A. Beaudet, HEW Audit Agency, Russell Allen and Ray Lazorchak, HEW Audit Agency.

2. January 31, 1978: Meeting with IRS and SSA officials. Purpose of the meeting was to determine the procedures that need to be followed in securing tax related information from IRS or SSA files. Some of the information requested was the earnings of the students and/or parents, and name and addresses of employers. Present: IRS—A. Gordon, Clyde Bradley, Marge Karlsen, Michael McCormick; SSA—Chuck Van Horn, Ann Dwyer, Bonnie Oehlers; HEW—Sherry Gardner; HCSR—Raymond A. Beaudet, Ray Lazorchak, and Russell Allen, Audit Agency.

3. August 2, 1978: Meeting with Department of Justice Student Assistance—Purpose was to discuss ways of detecting BEOG applicants who answered the Citizenship question falsely. Present: Edward Gross, DOJ, INS, Raymond A. Beaudet and Russell Allen, HEW Audit Agency and Mary Jane Calais, HCSR.

Following is a copy of an August 21, 1978 memorandum from Secretary Califano to the heads of all departments and executive agencies. The purpose of this memorandum is to inform these persons of HEW actions regarding Federal employees who have not repaid their loans and to seek support for these efforts.

Secretary of Health, Education, and Welfare,
*Washington, D.C., August 21, 1978.*

Memorandum to: Heads of Departments and Executive Agencies (see attached list).

As you know, HEW has been engaged in a vigorous campaign to assure that all individuals who have not repaid federally insured student loans begin to do so promptly. Federal loan and grant programs have succeeded in making higher education more accessible to millions of Americans. More than 11 million student loans insured by the Federal government have been made by banks and other lenders since the beginning of the program in 1967-68. In academic year 1977-78 alone, about one million students received loans averaging almost $1,700. Unfortunately, many borrowers—including some individuals currently employed by the Federal government—have not taken their obligation to repay seriously.

I want to advise you of the special actions we are taking with regard to Federal employees who have not repaid their loans, and ask that you give your personal support to our efforts.

In October of last year, we instituted Operation Cross-Check, a project which uses computers to match government payrolls against the list of defaulters on federally insured student loans. The first phase involved matching the HEW payroll against the default file; in phase two, which we began several months later, we matched this file against the Federal government's entire civilian payroll. In the near future, we intend to implement a third phase, involving the over two million military personnel.

We have made substantial progress with current HEW employees who had not repaid their loans. Our match of the remaining 2.65 million Federal civilian employees revealed that there may be as many as 6,600 employees who are in default. To date, we have sent three letters to the last known home address of each of these employees advising them of the amount of their debt and of their obligation to repay, and have attempted to reach them by telephone.

Unfortunately, because our address records are in many cases outdated, we have been unable to make contact with a significant number of these persons. On August 15, HEW officials met with a personnel officer of your agency and the Executive Director of the Civil Service Commission to bring them up to date on our efforts and to seek their assistance in collecting these accounts. In particular, we asked that each personnel officer review their agency's records to ascertain whether the individuals in question are currently employed. If they are no longer employed, we will handle their accounts through our regular collection process. For each individual that is still employed, we have delivered this week to the appropriate personnel official a sealed letter requesting repayment, and have asked that the personnel office mail the letter to the employee's office address.

If we are still unable to reach these individuals, or if we are unable to arrive at a satisfactory arrangement for repayment, we shall refer them to the personnel officers of their respective agencies. We expect to begin making referrals by the end of September.

Under procedures discussed with agency personnel officers and the Executive Director of the Civil Service Commission, we have recommended that the individuals referred should first be counselled by agency personnel staff. It is our intent and hope that these matters can be resolved without the involvement of the individuals' supervisors. Where these initial steps fail to effect voluntary repayment, we have recommended that agencies take appropriate administrative action consistent with established agency procedures and union contract obligations. Debts which cannot be resolved will be referred to U.S. Attorneys for disposition.

If we are to maintain public confidence in the integrity and effectiveness of the Federal student assistance programs, it is essential that we put our own house in order. I ask that, as referrals are made to your agency, the procedures we have recommended be implemented, and that you give this effort your personal attention so that these open accounts can be resolved both fairly and expeditiously.

Leo Kornfeld, Deputy Commissioner for Student Financial Assistance (245-8595), will be available to provide any additional information you may need.

JOSEPH A. CALIFANO, Jr.

Attachment.

### Attachment to Memorandum of August 21, 1978, From HEW Secretary Joseph A. Califano, Jr.

Hon. Bob Bergland, Secretary of Agriculture, Washington, D.C. 20250.

Hon. John Stetson, Secretary of the Air Force, Washington, D.C. 20330.

Hon. Clifford L. Alexander, Jr., Secretary of the Army, Washington, D.C. 20310.

Hon. Juanita M. Kreps, Secretary of Commerce, Washington, D.C. 20230.

Hon. Harold Brown, Secretary of Defense, Washington, D.C. 20301.

Hon. Joel W. Solomon, Administrator, General Services Administration, Washington, D.C. 20548.

Hon. Patricia Roberts Harris, Secretary of Housing and Urban Development, Washington, D.C. 20410.

Hon. Cecil D. Andrus, Secretary of the Interior, Washington, D.C. 20240.

Hon. Griffin B. Bell, Attorney General, Washington, D.C. 20530.

Hon. W. Graham Claytor, Jr., Secretary of the Navy, Washington, D.C. 22202.

Hon. William F. Bolger, Postmaster General, U.S. Postal Service, Washington, D.C. 20260.

Hon. Brock Adams, Secretary of Transportation, Washington, D.C. 20590.

Hon. W. Michael Blumenthal, Secretary of the Treasury, Washington, D.C. 20220.

Hon. Max Cleland, Administrator, Veterans Administration, Washington, D.C. 20420.

**Mr. Wydler.** Will you yield for one question, Mr. Chairman, because I can't come back. I have to go to the Rules Committee.

**Mr. Fountain.** Surely.

**Mr. Wydler.** I just wanted to say that I urge all of you gentlemen to vigorously pursue this program because, as I told the Secretary, I believe if you convince the public that you are going to collect the loans, a lot of your problems relating to them are going to disappear, and a lot of people want the loans because they figure they are grants, and if they really believe they are going to have to pay them back, I don't think you will see much fraud in the initial process.

But in that regard, what I want specifically to ask you is what legislative help you need from the Congress to make your job better? Could you give me a couple of things you think the Congress could do legislatively to help you perform this function more effectively, and if so, what are they?

**Mr. Kornfeld.** I can't think of anything off-hand, and I am sure, as I think about it——

**Mr. Wydler.** I would like a one, two, and three. Maybe talk it over and give us three of what you would call the top priority items you feel would be of legislative help to do this job and do it properly. I will promise you that I personally will undertake to try to carry them out if I believe they will help you.

[The following statement was subsequently provided:]

We are reviewing all aspects of student aid programs as part of our presentation for reauthorization of the Higher Education Act. However, there are a number of areas, which have been brought to our attention in preparing for this reauthorization, where more immediate action may be desirable.

We should point out that these kinds of proposals have not yet been clearly defined and we are not yet prepared to make specific legislative recommendations; but, we are reviewing the desirability of legislation of the following areas:

1. Prohibiting students who have defaulted on student loans or who owe a refund on a Federal grant from receiving additional Federal student aid support regardless of where they are currently enrolled;
2. Ensuring that institutions establish reasonable and meaningful standards of academic progress;
3. Ensuring that students do not receive Federal funds to which they are not entitled to providing authority for the Office of Education to have access to specific relevant information on records kept by other agencies.

This is not intended to be an all inclusive list. Many areas which are of mutual concern to us (such as accreditation and completion rates) are being addressed through the reauthorization effort.

**Mr. Kornfeld.** The Education Amendments of 1976 were very helpful in our efforts to maintain control of these programs. These amendments provided for a number of changes in the guaranteed student loan program, which we are now implementing and which have really strengthened that program. In the guaranteed student loan program, one of the major problems which we hope we will be able to do something about, in the reauthorization that is coming up next year, is that there have been significant changes, legislative changes, just about every year in the 11-year history of that program.

As a result, when one talks about commonsense in the way that Mr. Califano urges us to commonsense our regulations and requirements, I think it is also appropriate for legislative needs to be commonsensed. It is a very complex series of rules and requirements. As we go through the reauthorization, we hope to make that whole piece of legislation much more understandable.

Mr. Fountain. In that connection, I hope you will not hesitate to submit to the Congress your own ideas about legislation which may have been passed which was unnecessary, which has created bureaucratic difficulties. That is what Mr. Wydler was talking about. I am satisfied that the Congress has done that. We get a new group and get new ideas, and the people who start these things don't realize we already have programs in effect, and if they get enough votes, these things go through and quite often you have unnecessary duplication and overlapping.

We will recess briefly to go to the floor. The subcommittee stands recessed for just a few minutes.

[Brief recess.]

Mr. Fountain. The subcommnittee will come to order.

Do you have liaison or coordination arrangements with any State and local agencies, and if so, will you give us the details?

Mr. Kornfeld. We will submit, Mr. Chairman, the kind of coordination we now have. Generally, there is some coordination, both formal and informal.

Mr. Fountain. If you don't think it is adequate, will you submit to the subcommittee, as soon as you can, at least your preliminary suggestions as to what you propose to do to improve coordination at the State and local levels?

Mr. Kornfeld. We will be glad to do so.

[The following statement was subsequently provided:]

Currently, our primary coordination with State and local agencies is achieved through the Division of Eligibility and Agency Evaluation (DEAE). DEAE's contracts are State Licensing agencies and we obtain information regarding State's actions through DEAE. In fact, DEAE and the Education Commission of the States held a national conference this past July to discuss, among other issues, ways to improve the role of the States in controlling institutional fraud and abuse. We expect that the proceedings of that meeting will be available in the next month or so. I will be pleased to send you a copy of that report as soon as it is available.

However, we don't feel that this coordination through DEAE is adequate and we need to improve our direct contacts with State agencies and we feel we have a good mechanism to do this. As you know, two components of our organization deal with State agencies; in the loan area, we deal with State Guarantee Agencies and, in the grant area, we deal with State Scholarship and Grant Agencies.

We intend to use these already existing contact points for effective and timely exchange of information as well as to coordinate our activities more efficiently.

As indicated in the Secretary's testimony, the Department is initiating activities with Federal agencies, states and institutions of higher education to assure that students do not receive aid in excess of their actual need.

Mr. Fountain. When the Bureau of Student Financial Assistance was established, three separate units which had been administering different programs, as I understand it, were consolidated. Have you had any problems in trying to make the bureau operate as a single organization? If so, will you describe them?

Mr. Kornfeld. Yes. After the Secretary put the major Office of Education student aid programs in one place and created the Bureau of Student Financial Assistance, we restructured the Bureau. Although it still needs some fine tuning, I am personally pleased with the way the Bureau is operating today.

We have organized functionally, except in those areas where we feel that we must maintain specific program identity. For example, in the past we had training functions going on in each of these programs and their activities were not coordinated; they were not integrated. Today, we have a unified training program to train financial aid officers, high school counselors, and various constituencies in all the programs.

Another example is program reviews. In the past, different units did program reviews with varying degrees of effectiveness for individual programs, but they were not coordinated. Today, when we do a program review of an institution, the program reviewer goes in and looks at the entire program of student financial assistance. As a result, we see the institution's operation in a much more coordinated way than in the past. Not that we have the problems completely solved, but this structure is working, and it is working very well. We think the way we are structured now is a vast improvement over the past.

Mr. FOUNTAIN. How long have you had this in effect?

Mr. KORNFELD. The reorganization took place around December 1977, January 1978, so it has actually been in effect about 6 months.

Mr. FOUNTAIN. Mr. Duncan?

Mr. DUNCAN. I would like to ask one question, please. I understand that during the Senate Labor-HEW Appropriations Subcommittee markup of the Labor-HEW appropriation bill that Secretary Califano wrote a letter to Chairman Magnuson stating that the Office of Education will change the BEOG family contribution schedule to accomplish administratively what the middle income students assistance bill, H.R. 11274, seeks to do legislatively. Can you fill us in on the status of the change in the family contribution schedule?

Mr. KORNFELD. The family contribution schedule has not yet been submitted to Congress but, as I understand it, the approach is to be able to accommodate the major thrust of the Middle Income Assistance Act through the family contribution schedule. As you know, the most important change in MISAA is reducing the basic grant income assessment rate from 20 or 30 to 12 or 10½ percent. That change can be done through the family contribution schedule, which is submitted annually to Congress for review. It is true that some of the major changes in the middle-income bill that pertain to the basic grants program could be accomplished through the family contribution schedule.

Mr. DUNCAN. You do intend to change the schedule?

Mr. KORNFELD. The schedule has not yet been sent to Congress. It is still being reviewed in HEW.

Mr. DUNCAN. Do you know when it will be sent to Congress?

Mr. KORNFELD. I do not know.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. FOUNTAIN. I have some questions which are technical in nature.

I would like to ask you to submit any of these suggestions about legislative changes to the appropriate committee and also to us. That would enable us to go over them with the legislative committee, to be sure they don't forget about them.

Mr. KORNFELD. We will be happy to do that.

Almost all of these programs are up for reauthorization next year, and we are working within HEW to prepare for that activity.

Mr. Fountain. In the process, I hope you can take care of some of these problems.

Mr. Kornfeld. That is our hope, too.

Mr. Naughton. On the subject of the BEOG application, you may recall last week we used the hypothetical example of a rock star who earns $200,000 but reports no income if he lives with his low-income mother. I am somewhat chagrined to find I have underestimated the potential of the application, because I find that the rock star does not have to live with his mother but only plan to visit her once every 3 years and then he will not have to report any of his income.

Mr. Kornfeld. Let me react to the rock star story.

First, I think in all fairness that is not really our problem. The chances of a student earning and keeping $200,000 is rather remote.

When he comes up to the financial aid officer with rings on his fingers and so forth, somehow the officer will know that there is something wrong. It is not the $200,000-a-year rock star we are most concerned about. The problem is that students can be earning income, not $200,000, but they can be earning some income, and this income is not reflected in the grant application or the grant award. That is a problem. But it is a complex problem.

The reason that the requirements in the program are so stringent regarding student dependency versus independency status is that we are more concerned about the son or daughter of a rich family declaring him or herself an independent student and thereby getting a basic grant. As you know, I am sure, Mr. Naughton, some 30 percent of the BEOG recipients are now declared independent. However, 70 percent of these are over 21 years of age and the over-21 doesn't concern us that much. The balance, the young 18-year-old independent student, does concern us.

If we begin to relax the criteria and make the changes needed to assure that the rock star, or any student earning money while in school, becomes an independent student, we might be taking care of one evil but creating another set of evils.

Last week, we spoke of this concern. Let's take the more reasonable case of independent students who may earn $5,000 a year, and we agree that if they are earning that kind of money, they should not be BEOG recipients. However, the solution is not simple, and it is especially difficult because you would not want to make changes which would demotivate students from working. If we generated the feeling that as soon as you start working you get no BEOG, or a reduced grant, we might be encouraging people to say, "Why should I work?"

The bottom line is that it is a problem and we recognize it to be a problem. But, it is a complex problem. We have been looking at it and—particularly now that it has been further emphasized as a result of these hearings—we feel we have to find some way to deal with the problem so we can try to control it in a better way. I want to make sure everybody understands it is not a simple problem.

Mr. Fountain. I appreciate what you are saying, but I want to tell you if there is a 21-year-old student or a 25-year-old student whose parents are ready, able, and willing to assist him, as far as I am concerned, I don't want any of my tax funds to go to help him get an education.

If his parents are not interested enough in his getting an education, then so far as I am concerned, I don't think I, as a taxpayer, ought to have that responsibility, and I don't think you ought to have it.

Mr. **Kornfeld**. That is exactly where we are, Mr. Chairman. That is exactly why the rules of dependency and independency are so stringent. The rules are if you live with your parents——

Mr. **Fountain**. If the parents are ready, able, and willing—and my guess is 99,000 out of 100,000 are willing to pay.

Mr. **Kornfeld**. We support you wholeheartedly, and that is why the definition is stringent. There is a real danger that if you relax the definition of independent students, more people from wealthy families will declare themselves independent, because they don't want to have to include their parents' income and, as a result, they will get grants.

Mr. **Fountain**. Maybe we need to change that law so the student will know he can't do that.

We may have some wealthy parents who are thinking they are spending a lot of money on taxes and one thing and another and everybody else is getting it, so let my child get it too. There is a lot of that going on.

With respect to the income the student earns, I realize often it might be just a nominal sum but I do think you should have a question which would require the student to report it. All you need to do is to simply say, "Should you earn any income, you are required to report it to the appropriate agency." That at least will give you an opportunity to take it into consideration.

Mr. **Kornfeld**. We are planning to go back and do some analysis of students' earnings while they are in school to get a better idea of the scope and severity of the problem. Based on that we will try to figure out some way that we can cope with this problem. As I mentioned earlier, the problem is easy—this is one case where the problem is easier to identify than the solution.

Mr. **Naughton**. It is quite clear that you are taking rather severe steps in the application to try to insure that no student who is in fact dependent upon his parents can declare himself independent. I applaud you for doing that. It would be quite difficult for the child of a wealthy family to honestly declare himself independent under your application form.

Nevertheless, there has been a vast increase, in the number of those declaring themselves independent, has there not?

Mr. **Kornfeld**. There has been an increased number, but as we analyze it, it is primarily older students. As you know, when you look at the age of the postsecondary population, there is a distinct movement toward older people going back to school.

Mr. **Naughton**. Have you prosecuted any students for falsely declaring themselves independent?

Mr. **Kornfeld**. I don't think so.

[The following statement was subsequently provided:]

We are now developing improved procedures for dealing with students who fraudulently apply for student aid benefits. As part of this effort, we are planning to work with the Justice Department to establish guidelines for turning such cases over to them for litigation.

When we have finalized our procedures in this area, we will be happy to provide them to you.

Mr. NAUGHTON. Have you made any investigation to determine the extent to which there have been false statements filed?

Mr. KORNFELD. I don't think we have taken action as aggressively as we ought to toward the individual student. There have been some individual student prosecutions, but they have been obvious cases of fraud. I think it is incumbent upon us to be much more decisive and take much more aggressive action in prosecuting those persons who have definitely made fraudulent statements or have done things that are clearly contrary to the regulation.

Mr. NAUGHTON. Have you estimated or have you tried to estimate how much has been paid out in excess BEOG grants, which should not have been paid out, because of false statements on applications?

Mr. KORNFELD. I don't know if we can answer that question——

Mr. NAUGHTON. Mr. Morris, did you have an estimate of $65 million?

Mr. MORRIS. I wish we could give you an estimate, Mr. Naughton.

Mr. NAUGHTON. I am thinking now of the estimate in your annual report which related to BEOG grants.

Mr. MORRIS. Let me check that. It was not in reference to this particular situation although half our caseload, as our annual report did point out, and still is true today, is falsification by students on applications. That is the caseload we are pursuing.

Mr. KORNFELD. As you know, we have initiated for the first time this year a preaward validation process. This was discussed in Secretary Califano's testimony last week.

There are two parts to that activity. What we are doing is this. The application has to go through a computer edit review before it is even processed, and as reported by Secretary Califano, some 30 percent of the applications have been rejected because of either inaccurate, inconsistent or missing information.

In addition, we are sampling the total number of recipients and requiring those persons selected on the basis of this sampling to substantiate the data on their application. This means, for example, that they will have to provide documentation, such as IRS forms, to verify the fact that their parents earned the amount indicated on the application. We estimate that that process will reduce the cost of this program by about $100 to $150 million.

Mr. NAUGHTON. By screening out false or inaccurate statements from persons who are not really entitled to get those grants, but would get them if you let their applications pass through unchallenged?

Mr. KORNFELD. We edit all applications that go through before they are processed. In the process of that edit, which is already in place and has been working this year, we try to screen out the inconsistent and inaccurate data that parents may put on the application form. We hope that this encourages and motivates people to make sure what information they put on that application is absolutely correct.

Also, as part of our training program, we make efforts to be sure that people clearly understand that, if they don't include all of the required information and don't report the information correctly, chances are good that their application will be bounced—that it won't even be processed.

We have also publicized this validation process in all the places where we thought it should be publicized. We want people to understand, just as people understand with the IRS system, that they are always subject to audit. We all know that the IRS has the authority to review IRS forms to be sure they were filled out correctly. We are trying to develop that same environment and attitude among students and parents, so that they know that their application is going to be audited and, when it is audited, they will not get the award unless they can substantiate the data they have put on that application.

Mr. NAUGHTON. You gave a figure for the record as to the savings that are anticipated from the computer screening process. I don't recall whether it was $100 million or $150 million, but it was in that ball park, wasn't it?

Mr. KORNFELD. The savings?

Mr. NAUGHTON. Yes.

Mr. KORNFELD. $100 to $150 million for the validation efforts.

Mr. NAUGHTON. Did you have this screening procedure in past years?

Mr. KORNFELD. What we had in past years was a very small postaward system, which was just not working. As we all know, it is difficult to track down the student who already has the award to get the award refunded.

This system has been built so that this validation process is conducted prior to the student getting the award. When he does get an award it will hopefully be the correct amount.

Mr. NAUGHTON. If you are going to save $100 million or $150 million through the computer process this year on grant awards, then does it follow that last year you paid out $100 million to $150 million that shouldn't have gone out? Is that a fair assumption?

Mr. KORNFELD. I don't know if it is fair, but it is possible. In order to try to bring the matter back in perspective, remember that this program is 5 years old. It started off very fast. There has to be a learning curve on these things. I hope next year we can come up with some idea on this. I don't know what it is, but I hope we will be creative and constructive enough to come up with new ideas next year that will help further improve the program.

Mr. FOUNTAIN. I would like to say this. I am sympathetic to the administrative problems which arise from legislation of this kind and I think the record should show that this subcommittee is sympathetic to the legislation. I think all Members of Congress are. I voted for the student grant program and I think we are all interested in seeing those who are in need get help for this education—something which was not available when I was a student, and I think it is wonderful.

This subcommittee is extremely sympathetic with the program but we are concerned that we bring about an administrative process that is proper.

Mr. **Naughton**. With all due regard, Mr. Kornfeld, I think if we can concentrate more today on what is wrong with the program, perhaps we could allow you a full opportunity at the end of the hearings to include an amplification for everything that has been mentioned, but if we have it on every question, I am afraid we won't cover everything that is wrong.

Mr. **Kornfeld**. I understand.

Mr. **Naughton**. In addition to the obvious right that the Government has to recover money that has been obtained through false statements, there are other situations where recoveries are due on BEOG grants, are there not—for example, when a student enrolls, gets a BEOG grant which includes a living expense allowance and then never attends school or drops out?

Mr. **Kornfeld**. That is correct.

Mr. **Naughton**. You do not have figures on the dropout rates, I take it?

Mr. **Kornfeld**. We have some numbers, but not on dropout rates per se. We have some cases where we have recovered funds where students dropped out and got a grant. We will provide those numbers for the record. We do have specific numbers.

[Note: No figures were provided.]

Mr. **Kornfeld**. We are not happy with the way the system is working, and we have initiated changes in that particular system.

One problem relates to how institutions report these recovery numbers. Basically many are now reporting in such a way that they net out the funds. We are not satisfied with that procedure. Therefore, we have already taken steps to get these schools to report those numbers more accurately.

Mr. **Naughton**. For instance, City University of New York received $63 million in 1976 under the BEOG program and $76 million in 1977. In 1976 they reported zero recoveries. Do you believe that say none of those students dropped out?

Mr. **Kornfeld**. If the situation in City University, Mr. Naughton, is the way they reported it, one cannot determine whether there are any recoveries or not. They reported a net figure rather than the way they should have reported. That is a good example of the kind of change that has to take place. Based on the way figures were reported, it is difficult to ascertain whether there have been recoveries.

Mr. **Naughton**. Can you provide for the record the best estimate you can assemble as to the amount that the taxpayers may have lost because of dropouts, false statements, et cetera, in connection with the BEOG program, where the amounts have not been recovered?

Mr. **Kornfeld**. We will try to do that.

[The following statement was subsequently furnished:]

We don't have any estimates on the amount of BEOG funds which may have been "lost" as a result of dropouts, false statements, etc. As you know, we are just getting into our program review and student validation efforts and do not yet have sufficient information to make any estimates of national impact.

We are currently assessing the savings to the government resulting from our student validation activities. This assessment includes the savings attributable to: (1) the tightened edits incorporated into the application processing system; (2) the actual verification of data submitted by the students selected for validation; and, (3) the results of the various computer matches we are conducting.

We expect that we will have preliminary data on savings by next summer. However, we should also point out that achieving a specific cost savings is not the primary purpose of this validation effort. Our major purpose is to ensure that students receive Federal funds based on accurate and complete information.

Mr. **Kornfeld**. I would just like to explain one thing. I am sure there have been some losses, but I think it is also important to make this point. The BEOG program is restricted to 50 percent of cost. In an institution where the tuition rate was $1,600 or, next year $1,800, the students would probably not get any money directly from the BEOG program. That money would be used to offset tuition expenses and, if the student dropped out and a refund was due him—which is determined by the institution's refund policy—the refund would go back into the basic grants account. The situation again has to be put back in perspective—there is a potential problem in certain kinds of institutions, but in those cases where the tuition rate is such that it is equal to or greater than the BEOG grant, the student doesn't get any cash. It is just an offset to his tuition.

Mr. **Fountain**. The institution gets the money.

Mr. **Kornfeld**. Yes, sir.

When you talk about the cost of going to school except for community colleges and some city universities, it is very rare to find a college or university tuition rate that low.

Mr. **Naughton**. Of course, the dropout problem is much greater at the proprietary schools, the junior colleges and the low tuition public institutions, is it not?

Mr. **Kornfeld**. It is. That reflects the whole problem of dropout rates, which is related to "satisfactory progress," which is related to retention. They are all related problems about which we are very concerned, as you are. It is not only the dollars which are involved, which are important enough, but also some very difficult situations that may arise.

The kind of student in a community college, where there is a low tuition rate, would get half of his living costs, assuming he lived at home, which is often the case at community colleges. That amount of money would be difficult to recover when the student drops out.

Mr. **Naughton**. Isn't it true there is evidence there have been students at low tuition colleges who have enrolled, gotten a BEOG grant, dropped out or never attended classes, come back next semester, signed up, obtained another grant and again dropped out?

Mr. **Kornfeld**. I think we have certain things in place today which will tend to reduce the likelihood of that happening. We hope to have things in the future which will reduce it even further, but it is clear today that it can happen.

Mr. **Fountain**. Are students required to report when they drop out?

Mr. **Kornfeld**. In the case of the low tuition institution—you mentioned the student who dropped out and who owes a refund—he cannot get a second award next semester.

Mr. **Naughton**. Are you sure about that?

Mr. **Kornfeld**. Under the regulations he cannot.

Mr. **Naughton**. What kind of system do you have to prevent it if, let's say, he goes to another community college across the city or in an neighboring town?

Mr. **KORNFELD**. We are putting a number of things in place right now, most of which are in proposed regulations and already published in the Federal Register. These will not eliminate that problem, but they will certainly assist us in getting on top of it much more than in the past.

For example, the standards regulations—which will be published in the Register this week—require that every student have a student financial aid transcript. Just as is historically done in most colleges and universities, when you transfer from one institution to another and you have to submit an academic transcript, we are now requiring a student financial aid transcript. Therefore, when students transfer from one institution to the other, the financial aid officer at the second school will at least have a history of the kind of aid a student received at the previous institution. That has been published as a proposed regulation.

Mr. **NAUGHTON**. How much have you actually collected in refunds? Is it more than $100,000 or less, do you think?

Mr. **KORNFELD**. Are you referring to the recovery from dropouts?

Mr. **NAUGHTON**. From dropouts——

Mr. **KORNFELD**. I don't know the number, but we will provide it for the record. There have been recoveries.

Mr. **NAUGHTON**. Do you think it is more than $100,000 or less?

Mr. **KORNFELD**. I certainly do think it is much more than that.

Mr. **NAUGHTON**. Is it more than $1 million? Mr. Hastings, do you know what it is?

Mr. **HASTINGS**. I am not sure about the question.

Mr. **NAUGHTON**. The amount of recoveries.

Mr. **VOIGT**. It depends on which recovery you are talking about. Most of the recoveries are made at the institution. However, if the institution can't recover funds from the student which were paid to cover living expenses, then that institution is supposed to turn the student over to us and we attempt to collect the funds.

It is my understanding that, so far in the current academic year, the recoveries at the institutional level are substantially in excess of $10 million. I don't know exactly what the figure is, but we will provide that for the record.

I think, in terms of our own recovery, it is roughly in the neighborhood of $60,000.

Mr. **NAUGHTON**. It is less than $100,000?

Mr. **KORNFELD**. The only time we get into that is when the institution cannot recover the funds and turns that student over to us.

Mr. **NAUGHTON**. Let me bring up a specific case. We received reports some time back which we called to the attention of the Office of Education concerning the possibility of widespread abuse at Florida Junior College in Jacksonville and perhaps at other junior colleges in Florida.

Subsequently, we received a letter addressed to me dated February 11, 1977, signed by Leonard Spearman, Acting Deputy Commissioner for Postsecondary Education. In it there is a summary of what was found as to the existence of problems at Florida Junior College. It states:

The following facts were determined:

1. Florida Junior College is a low-cost (tuition approximately $300 per year) commuter institution which has an "open door" admissions policy.

2. There are approximately 2,000 Basic Grant recipients at the school with a current funding level of almost $1 million.

3. The school has no policy regarding satisfactory academic progress, although they will be instituting such standards for the term which begins in April.

4. Basic grant payments are made once each term and the school does not have the administrative capability of making more frequent payments.

5. Finally, Mr. Hartshorn estimates between 10 and 20 percent of their Basic Grant recipients are improperly accepting funds with no intention of pursuing the educational programs at the schools.

In order to measure the extent of this practice at other schools in Florida, Ms. Sedicum also contacted a representative number of the financial aid officers at similar colleges in Florida, including Miami-Dade Junior College in Miami, St. Petersburg Junior College in St. Petersburg, and Santa Fe Community College in Gainesville. We are pleased to report none of these schools reported problems near the magnitude of those identified at Florida Junior College.

The letter goes on to say that St. Petersburg Junior College reported between 5 and 10 percent of the basic grant recipients at that school are improperly receiving funds. The other two reported no significant problems.

Mr. FOUNTAIN. We will make the letter and the letter of response a part of the record.

[The information referred to follows:]

DECEMBER 2, 1976.

Dr. EDWARD AGUIRRE,
*Commissioner, Office of Education,*
*Washington, D.C.*

DEAR COMMISSIONER AGUIRRE: I am enclosing a copy of a letter from ———, a faculty member at Florida Junior College at Jacksonville, to Representative Charles Bennett. The letter was forwarded to the subcommittee by Congressman Bennett.

Mr. ——— indicates that some "enrollees" at the college are enrolling, collecting BEOG payments which exceed the enrollment cost, dropping out and pocketing the difference.

It would be appreciated if you will provide the subcommittee with a report on the situation described by Mr. ——— giving details as to the extent to which BEOG recipients are dropping out under the described circumstances and outlining corrective action, if any, which can or should be (or has been) taken. In this connection, it would be appreciated if you will have the appropriate member of your staff call me within the next few days to discuss details of the information desired and the time period in which it will be feasible to furnish it.

In addition to a report on the Florida situation, it would be appreciated if you will:

(1) advise whether or not the situation described at Florida Junior College is permissible under Office of Education policies and regulations. If so, please give details. If not, please provide copies of OE regulations, procedures or instructions prohibiting such occurrences, and describe any steps used to insure that such policies are enforced.

(2) indicate whether or not such practices are believed to be occurring at other educational institutions and, if so, OE's best estimate of the extent of such practices.

If there is any question concerning the information desired, please do not hesitate to contact me.

Sincerely,

JAMES R. NAUGHTON, *Counsel.*

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
*Washington, D.C., January 4, 1977.*

Mr. JAMES R. NAUGHTON,
*Committee on Government Operations,*
*House of Representatives, Washington, D.C.*

DEAR MR. NAUGHTON: Thank you for your letter of December 2 on behalf of Mr. ——— regarding possible abuse of the Basic Educational Opportunity Grant Program at Florida Junior College.

In response to your question concerning dropout rates of Basic Grant recipients, we would like to note that the Basic Grant program does not presently collect data which is specifically designed to monitor dropout rates for Basic Grant recipients. Program information which is presently on file could provide information on the number of students who have received only partial payment of their entitlement. A student may receive partial payment for the following reasons:

a. A student receives payment and does not complete the academic term for which the payment was intended;

b. a student receives payment and satifactorily completes the academic term but subsequently discontinues his education;

c. a student delays his enrollment and initiates his education during the second and/or third term during the academic year;

d. a student enrolls in an academic program which is less than a full academic year in length in which case a student's entitlement would be prorated as required by regulations.

Given the various conditions under which a student would receive only partial payment, it would be difficult, if not impossible, to isolate the number of Basic Grant recipients who discontinue their education. In addition, student payment data in the format suitable for this type of analysis is presently not available and it would require considerable time and effort to produce such statistics.

As indicated in your letter, the issue of student dropout is related to the question of possible program abuse by students. We are, of course, also greatly concerned by the program abuse which occurs when Basic Grant awards are given to eligible students who apparently register and enroll for the simple purpose of collecting their Basic Grant payment, subsequently reduce their class attendance and corresponding academic performance to a significant extent for the remainder of the term and then continue to repeat this behavior term after term. However, present program regulations do provide for a number of control and verification points which are designed to limit the possibility of such overpayments.

Specifically, the regulations permit institutions to either pay the student directly or credit the grant to the student's account. Since the vast majority of institutions credit the Basic Grant to the student's account rather than disburse funds directly to the student, a portion of the Basic Grant, to be calculated in accordance with program regulations, would be restored to the Basic Grant account if the student withdraws from enrollment during the institutional refund period.

In addition, the regulations specify that grant payments must be made in equal installments at least once each quarter, semester, etc., whichever applies. In this regard, it should be noted that institutions are encouraged to make payments at more frequent intervals and a considerable number of schools are, in fact, making more frequent payments. In this context, payments to students who do not maintain their eligibility status may legitimately be discontinued. This procedure is, of course, specifically recommended for low-cost schools where payments are made to students to support living expenses while enrolled at such schools. It should be noted that a minumum number of required payments was deliberately established to coincide with institutional academic calendars in order to permit sufficient administrative flexibility for institutions to establish disbursement procedures which best suit the institution's and student needs. Obviously, to require more frequent payment periods by regulation for all institutions would prove to be counterproductive for many schools.

Also, it should be remembered that the student must sign an affidavit attesting that all funds received under the program will be "used solely for expenses related to attendance or continued attendance" at the institution. In the event that there is sufficient reason to believe that funds received are not used for these specified purposes, the student should be advised by the institution that he may be in violation of the law and may be committing a criminal offense. Under these conditions, the institution should ask the student to withdraw his request for payment of grant funds for the academic period in question. If such a situation cannot be satisfactorily resolved at the institutional level, then the institution would be required to refer the case to the Office of Education for subsequent follow-up and resolution. Existing regulations are presently being strengthened to permit more forceful actions in recovering Basic Grant funds.

In addition, new regulations are being developed to deal more specifically with situations in which a student receives a Basic Grant award and subsequently discontinues his enrollment. In such cases, the institution may request that the student repay any unused portion of the Basic Grant. Under these conditions, the institution would request that student to withdraw his request for repayment or, if the student has already been paid, request repayment of any portion of the Basic Grant not reasonably attributable to educational purposes.

Another specific regulatory amendment presently being developed deals with procedures for the calculaton of such unused living expenses already paid to the student. The basic intent of this regulatory provision is to determine the amount of funds paid to a student which can reasonably be attributed to have been used for educational expenses, as distinct from the amounts paid to the student which are subject to recovery. The amendment requires that the institution make a reasonable effort to either recover the overpayment from the student and restore it to the Basic Grant account, or to make an adjustment in the next term's payment in the event that the student re-enrolls at that institution. If the institution is unable to make such recoveries, the institution will be required to report the case to the Office of Education which will then initiate procedures to recover the overpayment directly from the student.

Finally, present regulations require that the institution confirm that the student meets or continues to meet the eligibility requirements before making any payments to the student. This would include a verification that the student is still enrolled in good standing at the institution.

In addition to the development of regulatory amendments, the Education Amendments of 1976 provide that financial aid payments, including Basic Grant awards, may not be made to students if (1) a student is not maintaining satisfactory progress in the course of study he is pursuing according to the standards and practices of the institution and (2) a student owes a refund on grants or is in default on a loan previously issued to the student by the institution. Since these provisions of the Education Amendments are in effect now, institutions may withhold payment if the student is not making measurable progress in accordance with the standards and practices of the institution or if a student owes a refund on grants or is in default on a loan until the student reestablishes satisfactory progress and has met his financial obligation under the College Based and Guaranteed Student Loan Programs. We are in the process of developing additional guidelines and regulations to support the legislative procedures in this area.

Based on the present Program experience and procedures, it is highly improbable that deliberate program abuse on the part of the student is possible on a general scale in the Basic Grant program. Obviously, isolated and random occurrences of deliberate misrepresentation are possible and we are reviewing further steps that might be taken to further reduce the possibility of program abuse in this area.

We hope that this information will be useful to you in responding to Mr. ———. If we can be of any further assistance, please do not hesitate to let us know.

Sincerely,

WILLIAM HIENE,
*Acting Commissioner of Education.*

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
*Washington, D.C., February 11, 1977.*

Mr. JAMES R. NAUGHTON,
*Committee on Government Operations, House of Representatives,*
*Washington, D.C.*

DEAR MR. NAUGHTON: This is in further response to your letter of December 2 and subsequent telephone calls on behalf of Mr. ——— regarding possible abuse of the Basic Educational Opportunity Grant Program at Florida Junior College in Jacksonville, Florida.

Mr. ———'s letter expressed his concern regarding students who enroll in school, receive direct payments of their Basic Grant awards, drop out, re-enroll for the subsequent academic term and repeat this process. In order to determine the cause, extent, and nature of the problem described by Mr. ———, Ms. Diane Sedicum of my staff contacted Mr. David Hartshorn, the financial aid officer at Florida Junior College, to obtain more information.

Based on her conversation with Mr. Hartshorn, the following facts were determined.

1. Florida Junior College is a low-cost (tuition approximately $300 per year), commuter institution which has an "open-door" admissions policy.

2. There are approximately 2000 Basic Grant recipients at the school with a current funding level of almost $1 million.

3. The school has no policy regarding satisfactory academic progress although they will be instituting such standards for the term which begins in April.

4. Basic Grant payments are made once each term and the school does not have the administrative capability of making more frequent payments.

5. Finally, Mr. Hartshorn estimates that between 10 and 20 percent of their Basic Grant recipients are improperly accepting funds with no intention of pursuing the educational programs at the school.

In order to measure the extent of this practice at other similar schools in Florida, Ms. Sedicum also contacted a representative number of the financial aid officers at similar colleges in Florida including Miami-Dade Junior College in Miami, St. Petersburg Junior College in St. Petersburg, and Santa Fe Community College in Gainesville. We are pleased to report that none of these schools reported problems near the magnitude of those identified at Florida Junior College.

St. Petersburg Junior College reported that between 5 and 10 percent of the 1100 Basic Grant recipients at that school are improperly receiving funds. While they do have minimal standards for satisfactory academic progress, they are currently developing stronger standards for implementation in the 1977-78 academic year. Some instructors at the school do keep attendance records but the majority do not. This school also makes one payment per term. The awards are not made, however, until after the drop/add deadline.

At Santa Fe Community College, the problem was reported to be minimal. There are between 1500 and 1600 Basic Grant recipients at the school and a very well coordinated student aid program. For example, the registrar's office does keep attendance records and there is a good system for checking records between the financial aid, registrar and business offices. In addition, the school is implementing an on-line computer system which will enhance this process even further. This school also has relatively strict standards for satisfactory academic progress and has been enforcing these standards.

Miami-Dade is the largest junior college in Florida with about 7500 Basic Grant recipients. The financial aid officer at this school also reported that the problem described at Florida Junior College is minimal at his school. In fact, his estimate was that less than 1 percent of the Basic Grant recipients were involved. This school also makes one payment per term; but, prior to making payments, the school compares their recipient list with the registrar's records after the end of the refund period. Further, the school currently has standards for satisfactory academic progress and is developing more stringent standards to become effective next academic year.

As an overall observation, we would like to note that we are aware of the potential for abuse in situations such as those described by Mr. ———. This kind of abuse is, we believe, relatively restricted to those low-cost schools which: (1) Have limited or no existing standards for maintaining satisfactory academic progress; (2) make one payment per academic term; (3) have limited capability in the administration of student aid programs.

At the majority of institutions participating in Basic Grants, the students' awards are credited to their accounts and students receive very small amounts (if any in cash), thereby reducing considerably the possibility for misuse by students.

In response to your specific question regarding OE policy and/or regulations the following may be pertinent.

The Education Amendments of 1972 requires any student receiving a grant, loan, or loan guarantee through any program under Title IV of the Act, to file an affidavit stating that any such funds received will be used solely for expenses related to attendance or continued attendance at the institution. Although this requirement was not included in final Basic Grant regulations until August 10, 1976, (copy enclosed) schools have been aware of this requirement since the inception of the Program in academic year 1973-74. In fact, the Basic Grant Program developed the affidavit form to be used for this purpose and distributed it to all participating schools.

Obviously, students such as those described by Mr. ——— are in violation of this affidavit. The problem, however, is related to that of determining whether students are no longer enrolled in the institution.

As you may be aware, there are a number of institutions which have an "open admissions" policy, minimal (if any) standards for measuring academic progress, and do not maintain any attendance records on their students. In situations such as this, schools report that the only way in which they can determine whether students have dropped out is at the end of the term when final grades are available.

In the Education Amendments of 1976 the Congress addressed this issue in part by including a provision which stipulates that students who are not making satisfactory academic progress are not eligible for any additional Federal aid at that school. However, the law also states that academic progress is to be determined according to standards and practices of the institution itself. Therefore, if an institution's own standards are lacking, the Office of Education does not seem to have the authority to make the school strengthen its requirements.

In addition, because most institutions would only be able to determine that satisfactory progress has been maintained until after the completion of units of progress, it would be difficult to know how many students have dropped out during an academic term unless the student formally notifies the school that he or she has withdrawn. Again, this is an area in which the Office of Education does not have the legislative authority to require schools to keep attendance records. Therefore, successfully monitoring students is most often dependent on the policies and practices of individual schools.

All of this is not to say that we are not concerned about this type of program abuse. When such situations occur and are brought to our attention, we often recommend that institutions undertake a number of administrative procedures to reduce the potential for abuse. One method is for the school to institute more frequent disbursements of Basic Grant funds. Many schools do, in fact, make payments more often than the minimum times required under the Basic Grant regulations just to avoid the kind of situation which is occurring at Florida Junior College. This procedure does, however, require additional administrative resources and for that reason some schools are unable to undertake this added responsibility.

Schools are also encouraged to report students who violate the conditions of the affidavit to the Office of Education for follow-up and, if necessary, recovery of misused funds. In this way, we can take action when the institution cannot because no violation of its own policies have taken place.

We should point out that the ability of the Basic Grant Program to actively identify these types of problems and provide the follow-up necessary to resolve them is dependent on the resources which are available. Currently, the Basic Grant staff has been unable to perform any on-site program reviews which would permit the timely identification and resolution of all kinds of program abuse because of lack of staff. You may be interested to know that the FY 1977 Supplemental Budget Request includes 100 new positions for the Basic Grant Program. This would bring the total strength of the Program to 207 positions and will allow us to take the action necessary to alleviate many of these critical problems.

We hope we have been responsive to your concerns. You, I am sure are aware that we in the Office of Education share seriously in your concern to reduce the growing number of infractions resulting from either deliberate subterfuge or ignorance and incapability. Whatever the circumstances, we are making measured progress in our regulations, training efforts, and monitoring to ensure the proper use of Federal resources and the new staff which has been requested will allow us to move much more quickly and effectively.

If we can be of any further assistance, please let us know.

Sincerely,

LEONARD H. O. SPEARMAN,
*Acting Deputy Commissioner for Postsecondary Education.*

Mr. NAUGHTON. The estimate by student financial assistance officers that the number of BEOG grantees who had no intention of pursuing an education and simply signed up to get the stipend was between 10 and 20 percent; and the funds paid out during that period of time were $1 million, which would be an indication of between $100,000 and $200,000 in overpayment. Was any attempt ever made to recover those overpayments, and if so, how much was recovered?

Mr. KORNFELD. I don't know the answer to your specific question, but I would like to add that right now in the law—and I think it was in the Education Amendments of 1976—there is the requirement that a student has to demonstrate satisfactory progress at the institution in order to continue to obtain student financial assistance. We clearly have to do more work on this, but the intent of that law was to prevent the very kind of thing that you are describing.

What has been happening in the past, and what we hope to control in the future, is that a student registers, gets a grant, and never shows up again, then comes back next semester and repeats the process, and so forth. The satisfactory progress requirements are designed to prevent that.

Mr. NAUGHTON. Is there a standard definition of "satisfactory progress" or is it whatever the institution decides is satisfactory progress?

Mr. KORNFELD. According to the statute Congress has passed, it is satisfactory progress in accordance with the institution's own policy, or words to that effect. It is a difficult problem.

As you may recall, the Secretary read into the record last week a section from the General Education Provisions Act. Congress has made it clear that we do not have the authority to get involved in the educational aspects of an institution. Obviously we are not going to get into that type of involvement.

However, we do feel we can tighten up the whole area of satisfactory progress, the frequency of payments a person gets in the BEOG program, and all of these kinds of steps. Also, other steps are now under consideration to try to reduce that potential.

Mr. NAUGHTON. Isn't it true that some institutions have standards under which it is absolutely impossible to flunk out, whether you attend classes or not?

Mr. KORNFELD. It is probably true.

Mr. NAUGHTON. Do the same standards apply to proprietary institutions as apply to public institutions?

Mr. KORNFELD. I must say that some proprietary schools have much stricter requirements than 4-year colleges and universities do in this area.

Now, it varies and it is not universal; it is not consistent.

Mr. NAUGHTON. Has OE mandated certain standards for proprietary schools?

Mr. KORNFELD. I don't think we really can do that, Mr. Naughton. When you start getting into the educational concept of an institution, the Congress has not authorized us to do anything of that sort. Since we are on the subject, let me add a few points. First, as far as the total dollars in basic grants are concerned, we are talking about 9 percent of the funds going to proprietary schools. We have to make sure we keep that in perspective.

Mr. FOUNTAIN. How much in dollars is that?

Mr. KORNFELD. It is 9 percent of approximately $2 billion, Mr. Chairman.

Second, you have the most potential for the kind of problems we are talking about right now at proprietary schools and community colleges.

For example, with respect to proprietary schools, a set of regulations which calls for specific requirements as to job placement requirements is now being reviewed within HEW. The kind of problem we are trying to correct is when a student comes into a proprietary school or specific job training program, receives aid, and drops out without receiving any benefits from that training. As you may know, one of the eligibility requirements of proprietary schools is that they train students for gainful employment.

In addition, we have been meeting—and we plan to continue meeting—with the various proprietary school associations to try to convince them that, for their own good, they must monitor themselves more rigorously in order to put down some of the adverse criticism, which in some cases is justifiable. They are meeting with us and they are receptive to this. I think they are going to try to do something about it.

Also, as far as our own training programs are concerned, we have made specific provisions to train proprietary school personnel so that they can handle these financial assistance programs much more effectively than they have been able to in the past. In this way, we hope to reduce the potential or the susceptibility of these people to rely on consultants to administer the aid programs. We want to train various proprietary schools to understand what they can and cannot do. We hope to train them in a much more rigorous and comprehensive way in the future than we have in the past.

Mr. **Naughton**. We have heard several references to the statute which says HEW cannot tell schools how to run their business. Isn't there another school of thought that has taken the position that, while you can't tell them what to do, you can refuse to give them any money unless they do it?

Mr. **Kornfeld**. We are not jumping with joy about our progress in that area either, but we feel we are now doing much more of that. I think we are just as dissatisfied as you are about how long it takes us to go through that process. By the time we find something out and the dillydallying back and forth that has to take place, a lot of time has passed. We think we now have in place a process, run by people who are qualified to do it, which allows us to take much more decisive and prompt action on audits, program reviews, and compliance reviews. We think this process will assure that these things not linger for years, as they have in the past.

Mr. **Fountain**. I don't believe you can tell an educational institution what kind of educational policy it should have and what its admission policy, should be, so long as they are consistent with the law, but I do think you have the responsibility to tell an institution what it needs to do with respect to funds which it gets or which others get through that institution and how those funds are administered.

I think that is an entirely different situation from the one Mr. Naughton was alluding to where Mr. Califano created quite a controversy in North Carolina. That was a situation where the University of North Carolina was making extra effort to recruit minority students. In fact they had recruiters going out all over the country. What HEW was trying to get North Carolina to do was sign a contract saying, "We will guarantee we will increase the number of minority students by a certain percent" when they hadn't been able to do it with an active recruiting program.

They said, "We are willing to attempt to reach that goal, but we don't want to be held responsible so that if we don't reach that goal you can cut off funds and say, 'You haven't complied with an agreement.' "

I think that is an entirely different situation.

Mr. **Kornfeld**. We agree, Mr. Chairman.

We feel very strongly that these programs are excellent programs. They are serving a very valuable purpose in the country but, for the sake of these programs, they have to be managed and administered effectively and responsibly and with total integrity.

Congress wrote into the law that satisf[illegible]gress is to be defined by the institution.

Mr. **Fountain**. That is an unfortunate part of the law. I must confess, having been here for 26 years, that we have passed some mighty poor laws. We have often voted for a law because it has more good in it than bad, but I am now reaching the stage in my experience where, if it has too much bad, my attitude is to say no. If we keep it off the books and it is meritorious, it will come back. If we put it in, it may stay there. It is hard to get laws changed so that you can more properly administer them.

Those of you in the administrative process can help the Congress a lot if you let the Congress know when it has made some mistakes in the passing of laws.

Mr. **Kornfeld**. You will definitely hear from us, Mr. Chairman, about things that ought to be changed.

Mr. **Naughton**. Let me ask you a hypothetical question. Could I establish my own little proprietary school which for want of a better name I might call "Rip-off University"?

Mr. **Kornfeld**. Why don't you call it "Naughton University"? You will become historically important.

Mr. **Naughton**. Anyhow, I have a liberal viewpoint as an educator, and I don't think students should be subject to things like having to go to class and take examinations, and all I want them to do is come in and sign up for the BEOG grant and pay over a sufficient portion for tuition. After that, according to my standards, they may come if they want to and I will have a teacher there.

Under those circumstances are you required to permit me to participate in the BEOG program if I am approved by an accrediting association composed of other school owners?

Mr. **Kornfeld**. First, you get into the whole subject of educational values when you start talking about taking or not taking attendance. That is an educational judgment left up to each particular institution.

However, I would rather call it Naughton University rather than Ripoff University, if you don't mind.

Mr. **Naughton**. Let's call it Naughton and Kornfeld.

Mr. **Kornfeld**. I didn't know we were going to be partners this early.

As a result of the Education Amendments of 1976, we now have the authority to certify the fact that you meet the conditions which allow you to participate in the program. Eligibility and participation is a two-step process.

First, we go through the routine of accreditation and eligibility, which is primarily an educational quality type of determination.

Second, what we will do, before we will permit Kornfeld and Naughton to get into any of the student assistance programs, is to certify that it has the financial stability and administrative capability it ought to have before it can participate.

These are the new standards regulations I mentioned previously and which set out the standards for financial stability and administrative capability which must be met before we permit this particular institution to participate.

If your educational values and your accrediting body do not require that you take attendance, then we cannot require that you take attendance. However, if you are advertising that everyone who goes to Kornfeld-Naughton is going to get a $25,000 a year job as a computer programer and that is not in fact true, we can terminate your participation in the program. We have the authority to do that.

We are now launching an effort to vigorously enforce these standards. There are a lot of things that still have to be put in place, but we intend to do this.

Mr. NAUGHTON. I am still not clear as to whether we have to take attendance.

Mr. KORNFELD. I think that, unless the accrediting body requires it as part of the accreditation process, it becomes a judgment of the institution.

Mr. NAUGHTON. You are required to make the BEOG funds available even if a school does not require class attendance or does not check on it?

Mr. KORNFELD. Absolutely. This is a very sensitive subject—taking attendance. You are talking about an educational value judgment when you talk about whether attendance should be taken or not. When I went to school I vividly remember that the instructor had a room plan with everyone's name and the first thing the instructor did was take attendance. That is not done in many schools today, including proprietary schools. I think there are other ways to combat the problem that not taking attendance causes. When you talk about required attendance records, we are on a sensitive subject. What we really are trying to correct is the problem of the student coming in, registering, getting his BEOG grant, going home, never showing up again, coming back next semester and repeating it over and over again. That is the thing we have to correct. The fact they take attendance is really not that important as far as this program is concerned. We do have certain things in place to prevent that reoccurrence of that student coming and not going, and as I have already mentioned, we agree that we have more to do in that area.

Mr. NAUGHTON. How can you do it? At our school we don't have final examinations and attendance is not required. The student just comes in and pays his tuition and is in good standing.

Mr. KORNFELD. He has to show satisfactory academic progress. That whole subject has to be approved by various State authorities and accrediting bodies as to what the student must do to show satisfactory progress.

Mr. NAUGHTON. Our position is that he showed satisfactory progress when he paid his tuition.

Mr. KORNFELD. The regulations state that standards would have to be reasonable. If that is the only requirement we have, we are in trouble. The Deputy Commissioner for Student Financial Assistance will be after us.

Mr. **Naughton**. Have you asked for something in the law to take care of schools that may be permitting this and perhaps profiting from it? For example, they might have classrooms that will hold 50 and they sign up 500. If everbody showed up, they could never get them in.

Mr. **Voigt**. We tried to get stronger language in the 1976 amendments. It was made clear in the deliberations of Congress at that point that that was as far as we were allowed to go. The point is that the Congress did say the standards have to be reasonable. If your standards are that "satisfactory academic progress" means you pay your tuition, I think it is fairly safe to say that that standard is not a reasonable standard. It has to be considered on a case-by-case basis, however,

Mr. **Naughton**. Why could you not find it unreasonable that a student is not required to show up for class?

Mr. **Voigt**. That would have to be reviewed on a case-by-case basis. If we find situations where that happens——

Mr. **Kornfeld**. We would go into that. Someone might say we are overstepping the legal authorities set up by Congress, but I would rather fight that particular battle than to permit what you describe.

Mr. **Naughton**. Could you furnish to us the representations that you made to the Congress in seeking to get them to strengthen this provision on reasonable standards, the argument that you made?

Mr. **Kornfeld**. Yes.

[The following statement was subsequently provided:]

No formal presentation was made to the Congress on a stricter definition of standards of academic progress. However, the issue was reviewed with Congressional staff during consideration of the Education Amendments of 1976.

Mr. **Fountain**. I have a daughter attending the University of North Carolina and she is a junior. She has to attend classes. If she needs to get off, she goes and talks to the professor. When I was there they never called the roll and I have no objection to that, but as far as I am concerned, I am not willing to see the taxpayers spend money to pay tuition for students who don't attend classes. They can study elsewhere and I don't think funds ought to be spent to aid that kind of student. I don't know how you can get at it when you leave it to the institution and the institution has that kind of program.

Mr. **Kornfeld**. It is a very difficult question. You are getting into a very sticky subject here. This is a point beyond my qualifications. I am not an educator and cannot say how one should teach more effectively.

It is also true, however, that we are in a better position today to insure that a student has to demonstrate some reasonably satisfactory academic progress, so we can control this problem and stop it from continuing.

Mr. **Naughton**. I have some questions for Ms. Denny.

Mr. **Kornfeld**. Ms. Denny heads up our Compliance Division.

Mr. **Naughton**. I understand you have been in your job only about 2 months now.

Ms. **Denny**. That is correct.

Mr. **Naughton**. I have some questions to ask about what happened before you got there.

I would ask you to answer on the basis of what you have found out since you arrived.

Is it true the compliance unit was established several years ago to work exclusively on the student loan program?

Ms. **Denny**. It is my understanding that in 1974 a group of people in our regional office in Atlanta, Ga., established a compliance unit within GSL. In late 1975, when GSL recognized a compliance unit was needed, on the national level, personnel were transferred to Washington and a small unit was begun in 1976 in Washington.

Mr. **Naughton**. From what you have learned about the operations of the compliance unit when it was part of the Office of Guaranteed Student Loans, is it your impression they did a good job?

Ms. **Denny**. I can't really respond as to the quality of work. From the record I have looked at certainly that unit was very active in a number of cases. I have seen recoveries and savings of Government money. Those records, unfortunately, are not in very good order.

Mr. **Naughton**. Is that part of the reorganization process?

Ms. **Denny**. I think you will find once we do reorganize our record systems it will be much better in the future. We are trying to look through the records. We are trying to get them in good order.

Mr. **Naughton**. Does your staff consist of holdovers, for the most part, who served previously with the guaranteed student loan compliance unit?

Ms. **Denny**. Yes; the core of the investigative unit we now have was in the old GSL compliance unit.

Mr. **Naughton**. In your opinion how does their investigative experience compare with what might be available in other units of the Bureau of Student Financial Assistance? I understand they have been more or less specialists.

Ms. **Denny**. Those hired in the past were specifically selected because of their investigative background. A number of our investigators came from the FBI, from Secret Service, from DIA, investigative bodies such as that and they, of course, have been trained in the student loan program. We are in the process of training them to also work in the other programs that the Bureau now administers.

Mr. **Naughton**. So far as you know, are there any other units of the Bureau of Student Financial Assistance who have available to them investigators with the background and experience that you have available in your office?

Ms. **Denny**. There are certainly other people in the Bureau who have knowledge of the programs and can review programs to a certain extent. When you get into investigative techniques, I believe the qualifications of our unit are probably the best.

Mr. **Naughton**. Haven't they specialized more or less in going after the civil aspects of the possible fraudulent operation?

Ms. **Denny**. I think our purpose and general function and direction is that we are to concentrate on civil recoveries. That is our major interest. Because of the fact that criminal prosecutions very frequently are given priority over civil complaints and civil suits, in the past, compliance has been asked, and has in fact given personnel on a temporary basis, to the FBI, or to OI in HEW, to help in specific criminal investigations. In fact a big part of our work has been to assist in some of these criminal prosecutions.

Mr. NAUGHTON. Is it your understanding that when the compliance unit was a part of the Office of Guaranteed Student Loans it was pretty much free to initiate investigations and to use manpower wherever the director of the compliance unit felt it was most needed, and would be most productive? I might ask that another way: Are you aware of any restrictions that were placed upon the operations of the compliance unit when it was part of the Office of Guaranteed Student Loans?

Ms. DENNY. I have no personal knowledge of how it was controlled. I know it was controlled in the sense it was not only the head of compliance, but Mr. Ed York had some responsibility for compliance across the country.

Mr. NAUGHTON. They were free to initiate material?

Ms. DENNY. I think those decisions were probably made up the line by the administrators of the program. I am sure that the individual investigators did not have a free hand.

Mr. NAUGHTON. The compliance unit was not——

Ms. DENNY. They were under the direct control, I understand, of the top management. Again, my knowledge is only secondhand.

Mr. NAUGHTON. When you became Director, did you find your freedom to initiate investigations was limited in any respects?

Ms. DENNY. I think I could probably respond to that by saying I am the first permanent Director of the Compliance Division. For a long period of time we had acting directors in compliance and there were legitimate reasons to have control by other sections of the Bureau. I refer specifically to the fact that compliance investigations were actually triggered through a committee. Since I have come to the Bureau, I think there has been a logical change; more certainly it was recognized as a necessary change. It is now the compliance director who initiates investigations. I think everyone realizes a committee is not the best way to start an investigation and that it would be better to have a permanent director. That change has been made.

Mr. NAUGHTON. Prior to your arrival, were the cases investigated by the compliance unit primarily only those referred through the Problem Schools Committee?

Ms. DENNY. I think theoretically that was the process. I think in reality some cases were started in the field under various circumstances, and, as I say, our records are not the best.

Mr. NAUGHTON. Some did a few on their own?

Ms. DENNY. That is a possibility.

Mr. NAUGHTON. Are you now free, as Director, to initiate an investigation whenever you feel that the circumstances warrant it, to use your judgment as Director, to use your resources where most productive, or do you have to have approval of Mr. Kornfeld or the Commissioner of Education, or the Secretary, before you can open an investigation?

Ms. DENNY. I think Mr. Kornfeld has basically delegated this authority to me. He has told me the buck stops with me. However, that does not mean I make that decision independently. I check a number of sources. We have a long checklist of people we go to, to check before we begin an investigation.

Mr. NAUGHTON. As you understand your operating procedures, must you clear an investigation with someone before you undertake it and obtain permission to go into it?

Ms. DENNY. As I say, the clearance is in the sense of checking the logical places to make sure you are not duplicating efforts with someone else, to make sure the effort you have is correct, and you don't make this kind of decision in isolation, but I think the bottom line is that the buck stops with me.

Mr. NAUGHTON. Mr. Kornfeld, is this in writing, or, if not, is it your understanding?

Mr. KORNFELD. It will be in writing. It is part of our fine tuning to solidify the organizational structure, and it is clearly my understanding, too. You have to keep in mind, as Ms. Denny mentioned, that unit, although the intentions were there and everyone wanted it to work, had been leaderless for a long time, and we were able to recruit Ms. Denny, who is an attorney, herself, from the Justice Department. We now feel that we do have a person in that position in whom we have confidence. We now can start operating compliance in a much more effective way in the future than we have been able in the past.

Mr. NAUGHTON. You are not the first one I have heard say complimentary things about Ms. Denny. It is obviously the opinion of a number of people.

Why was the position left vacant so long?

Mr. KORNFELD. Recruiting in government, as you know better than I, is a very difficult process, and we tried to find somebody qualified.

Mr. NAUGHTON. How large is the staff of the compliance unit, Ms. Denny?

Ms. DENNY. We are not fully staffed. Our ceiling at the moment in Washington is approximately 25, and we have about 17 people aboard. In the field, where the actual investigations take place, I believe we have a ceiling of around 40, and we have 27 investigators onboard.

Mr. FOUNTAIN. What are your requirements for an investigator?

Ms. DENNY. The requirements are basically found in the 1810 series, including an investigative background. An investigative trainee, in a lower level could possibly have a college degree and some accounting background and an interest in investigation. But for the higher levels we require the background experience.

Mr. FOUNTAIN. I ask that because there are so many college graduates looking for jobs that can't get them; they seem to be prepared but are not specialists, who might well become qualified in some areas, and maybe the Government is having trouble finding them, and they are having trouble finding where in the Government they can be used.

Mr. KORNFELD. As an aside, we also have vacancies in the Bureau. As an example of what we have done, for all our efforts on filling vacancies—other than when they are specialists like investigators—we are hiring from what is called in the Civil Service the PACE list. This is the list of people who have no experience and are just out of college, with a bachelor's degree. We decided to do that to get young, ambitious people, who can make a significant contribution to the Bureau.

Mr. **Naughton**. Do you check to make sure they are current on student loans?

Mr. **Kornfeld**. That is part of the requirement in the recruitment.

Mr. **Naughton**. With respect to the field personnel, Ms. Denny, are you, as Director of the Compliance Unit, responsible for hiring, firing, and directing the activities of field personnel?

Ms. **Denny**. I do not hire and fire the regional investigators. However, I have been given the responsibility of setting priorities and seeing that those priorities are carried out as far as investigations are concerned.

Mr. **Naughton**. Do they report to you, or do they report to the program managers in the regional office?

Ms. **Denny**. They report administratively to the regional administrators in the field. We are trying to work out now a reporting system so that I will get weekly reports from the investigators as to the cases they are working on and the types of functions that they are performing. That is in process.

Mr. **Naughton**. You mean instead of reporting directly to you, they report through the program managers?

Ms. **Denny**. They don't really report too much at the present time. We are trying to work out that reporting system so that it is consistent across the country, and we do get a better idea of what is going on in the field.

Mr. **Naughton**. How can you establish centralized priorities if the people in the field are really working for someone else more than they are working for you?

Mr. **Kornfeld**. Can I answer that?

Mr. **Naughton**. Yes.

Mr. **Kornfeld**. When the Secretary reorganized the Bureau of Student Financial Assistance, there were two major steps that he initiated. One was putting the programs in one location in the Bureau, and, second, taking in the field—well, let me go back.

In the past, the field organization was under a regional commissioner of education. What the Secretary did is took all the student financial assistance program functions that were in each of these regions and set up a new unit in the region with the head of that unit reporting directly to the Deputy Commissioner for Student Financial Assistance. Now, the system operates so that the 10 regional administrators in the 10 regions report directly to me. Each of the regions has four major functions. We are trying to develop consistent standard operating practices in the regions, centrally directed and controlled by Washington.

The four regional units are a program review unit, a compliance unit, an information and training unit, and an operations unit—where the collectors are located.

The concept we are working toward is working rather well. This doesn't mean it is where we want it to be, but it is working rather well. This concept is that the day-to-day administrative supervision, which is very important, is decentralized. The regional administrator is responsible for day-to-day supervision. However, the central direction, such as establishing priorities, is handled out of Washington. For example, in the case of program reviews or in the case of compliance, we in Washington set the priorities regarding which institutions are going to have program reviews. We in Washington will set the priorities as to which institutions are going to be covered in compliance investigations, and the field is then instructed to proceed. The day-to-day supervision has to be done, in our opinion, by people out there.

But their reports, the way they do their jobs, and the procedures they must follow are centrally directed from Washington. I must say it is working well.

Mr. **Fountain**. Mr. Brown just came in. He has been in another meeting, and he will have to return, so we will yield to Mr. Brown at this time for such questions as he has.

Mr. **Brown**. Thank you, Mr. Chairman, and thank you, staff. I apologize for not being here for the full hearing because it is of considerable interest to me. As I noted the other day, I have 10 colleges and universities in my district, and they range rather broadly through a variety of kinds of institutional organizations and the group of youngsters economically and socially and racially that are served by those institutions.

I am particularly concerned about what is the largest institution, a State university, where, because of the nature of the institution's serving that commuter clientele from an area that has several other choices, where the costs are higher, they wind up with a relatively lower income group, or at least a significant reputation of a lower income group.

They have a lot of young adults who are out in the business world making their way and who can afford the cost, but they have a lot of others who cannot. And they have been admonished, as have other institutions, to cater to lower income students. They have made a particular effort; as a matter of fact, the school is outstanding, I think, in the United States, to deal with what is the developing problem that has not been really rationalized in Congress, and that is the handicapped student and the immense cost that is going to be to some established institutions. But those people have gone to this institution because it has been built fairly recently, and they have taken into account this new court attitude and congressional attitude. But those people don't have a great deal of money, either, for their education.

Now, my question is this: With the historic background of that kind of pressure from the Government to take low income students, handicapped students, black students who equate with low income, for the most part, and now with the new militancy by HEW to collect on all those students who have defaulted, what is an institution to do?

This institution, for instance, has just opened a new medical school and has been told by HEW that they can't qualify that medical school for student aid programs because they are over the 20 percent default rate on their undergraduate students.

Mr. **Kornfeld**. I know which institution you are referring to.

Mr. **Brown**. I thought you might. I would like for you to comment on that, and I would then like to turn for a little bit your attention to the black institutions that I have in my district.

Mr. **Kornfeld**. First, I am not sure the default rate is the reason given for the particular problem at that institution. But let me just——

Mr. **Brown**. Let me say in the letter we received from HEW specifically it was suggested that was not the reason, but when I talked to Mr. Califano the other day, he said, well, sometimes they did and sometimes they didn't, which I find to be a little loose for an administrative decision.

Mr. **Kornfeld**. I reviewed the letter before this hearing, because I knew this might be a question that would come up. My understanding is that the default rate did not have an impact on that particular situation. Let me describe——

Mr. **Brown**. I am not sure why they didn't qualify, but go ahead.

Mr. **Kornfeld**. The default rate in that particular program is the NDSL default rate and, as the Secretary testified, we are going to do something about that problem. Basically the approach that we are taking is that, even though institutions may have high default rates, they are not going to get any reduction in their Federal capital contribution if they show improvement in reducing the number of student defaulters. In other words, we accept the fact that this program has been in existence for 20 years, and institutions are not in a position to turn this thing around, just as we cannot turn around the guaranteed student loan program in a matter of weeks or months.

It is a long-term, difficult process, and we are having our share of problems, as institutions certainly are having their share of problems. What we are asking is that they show some improvement in the reduction of number of student defaulters. If they show some improvement, there would not be any offset in the Federal capital contribution which would be true in your institution.

Mr. **Brown**. I have a letter saying the institution's application for augmentation funds was not denied as a result of the university's delinquency rate but rather because it was unable to demonstrate that its needs were uniquely greater than other institutions in Ohio or the Nation.

My question is this: Are you referring to the institution as a whole, or are you referring to the medical part of that institution, because it seems to me that given the nature of the commuter institution, the encouragement to serve low income students, which they have done, and the encouragement to take handicapped students, which they have done outstandingly, as I said, that they, as an institution—and the default rate perhaps just underscores this in a not very attractive way—that the institution does clearly have a need for augmentation of funds.

If, on the other hand, you are referring to the medical school only, then the question is, I guess, since this serves as a new medical school in an area not previously served by a medical school, how can one relate that to the other medical schools in the State of Ohio or the region?

Mr. **Kornfeld**. I believe the letter goes on to say that the decision was based on the total institution, not just the medical school.

Mr. **Brown**. I think that is correct.

Mr. **Kornfeld**. Let me add some additional information here about this program. We talked a little about it last week, too, as I recall. Very simply, this letter and this conversation refer to what are commonly called the campus-based funds. The way campus-based funds have been distributed in the past has been through a series of panels. The institution made a grant request that was reviewed by a local panel in a region and, if the institution is unhappy, there was an appeal process.

We feel that there are a great number of inequities in that process and that this might be a factor at the particular institution that we are talking about. As a result, a new system for allocating these funds is being considered. I am not sure of this, but I think institutions will be much better off in that process because the way the system has been operating in the past, it became a pure, unadulterated grantsmanship operation. In other words, those institutions that could submit more articulate, better presented proposals ended up with more funds than those institutions who are not yet that astute and clever in putting together grant applications.

We are considering a new system based purely on institutional need with only auditable data, and without the panels or reviews included in the previous system.

It might be a system where an institution's need would be determined by the number of students it has, the type of students, and what aid other than campus-based funds low-income students receive. All of these figures could serve as the basis for a decision on how these funds will be allocated.

Mr. **Brown**. Will you be asking a student individually, even if he doesn't apply for student assistance through grants or loans, for a family financial report?

Mr. **Kornfeld**. No; it will only be those students who request financial aid, and we will determine their family contribution.

There is no perfect system, as we all know, because this is a complex subject. However, the thrust of this entire effort is to provide much more equity in the system than currently exists. That is what we are trying to accomplish.

Mr. **Brown**. Will the new system, for instance, in this case, treat medical schools differently from universities, separate out the graduate schools?

Mr. **Kornfeld**. Yes; it would separate graduate from undergraduate students. I am sure there are going to be some inequities because no system could cure all problems; there are so many varieties out there. We are convinced, at this point at least, that the new system would be much more equitable than the old system.

Mr. **Brown**. Let me change the focus of my discussion, if I can with you, to another institution, but now two separate institutions.

I happen to have the oldest institution of higher learning for blacks in the United States in my district, founded prior to the Civil War by blacks who escaped from the South in the under-ground, and one of them is a church-related institution, and one is a State-related institution.

The problem there is, again, that both of these institutions by their very nature responded quickly and fully to the urging of the Federal Government to accept low-income students and have—I think I am right in this percentage—somewhere between 85 and 90 percent of their students on BEOG programs. That may be BEOG and SEOG, I am not sure. Or it may be BEOG and the student loan, but I believe it is all BEOG. The default rate is high for them on their student loan rates, though, by the nature of the students and their backgrounds. Most of those students don't know how to deal with the bank because their family never dealt with a bank. They never had that much money, or they dealt institutionally in a financial way at a different experience level, and so don't have the same kind of background that the average student loan applicant has.

I understand that several such institutions, not particularly the ones I have the honor to represent, have had difficulty, and they are now on, if you will pardon the bad pun, a blacklist with reference to HEW to put pressure on those institutions to catch up on their defaulted student loans and their other programs and the administration of those programs.

Now, the thing that worries me about that is that we have been committed historically, over the last few years, to higher education for the blacks and for the low income students, and we sort of gave them a long string and now all of a sudden it seems to be we are pulling it back rather severely.

Could you comment on that for me, please?

Mr. KORNFELD. Yes, sir. I think, Mr. Brown, it is incorrect to state that we have a blacklist. In fact, we do not. I think I met with the president of the particular institution that you are talking about in your district some months ago because of the particular problems he was having.

The entire effort that we are going through as far as——

Mr. BROWN. I must say that the presidents of these institutions wind up knowing more people at HEW than I do, and that doesn't make any reference to the change of administration. It was true before, and it is true now.

Mr. KORNFELD. The kind of change we are contemplating in the NDSL program, where the default rate becomes pertinent, will not penalize those institutions which have a high default rate, providing they have at least complied with the rules, and the rules clearly state that these institutions have to exercise due diligence in trying to collect. Either they do it themselves, or they contract for it.

Now I think it is absolutely unfair, and we are not going to permit institutions to just neglect trying to collect these loans, because they should make some effort to collect these loans. If they make an effort, and they operate within the regulations, they will not be at all penalized in the sense of Federal capital contributions regardless of what their default rate is. The proposition we are now considering is a proposition which says that, if you do something and show some progress, regardless of your default rate, you will get the Federal capital contribution that you deserve based on the formula that we have developed. However, if you are negligent about this procedure, be it a black institution, white institution, or any type of institution, we take the position that we should not continue to pour Federal dollars in those institutions where they are not even exerting the minimum effort to try to collect these funds.

Mr. **Brown**. Let's go back and hit one other point, if I may, and that is the institution where there has been malfeasance, or misfeasance, or nonfeasance by the people in the institution with regard to the Federal funds that have gone directly to the institution at a time when those funds seem to come with very little limitation, very little followthrough from the Federal Government, and very little control in terms of the administrative accountability requirements by the Federal Government.

I understand you are also tightening up on those requirements, as I think you should, as I think should have been done long since, and I think the chairman probably knows that I have suggested to him in the past that we followup on some of these things, because my concern is that there has been this kind of administrative problem at the institutional level, and I don't confine it to black institutions; I think probably it has been true of grants to individual professors at some of the Nation's leading institutions, which are more likely to be in the chairman's district than mine, maybe, but——

Mr. **Fountain**. Are you speaking from authority or facts?

Mr. **Brown**. I went to school in his area. I won't suggest that there are any that have had that problem in either one of our districts, except to ask that in cases particularly where it is a fragile institution, where they don't have a great deal of endowment and all those other things to carry them along, and where they do depend greatly on the Federal dollar coming in, where there is evidence of misfeasance, malfeasance, or nonfeasance, and you are pursuing that and shaking up the institution, do you have any method of providing collateral support to that institution during that period of time, either in administrative assistance to the institution or to help save the institution's reputation or to help save it financially if, in fact, you are cutting off assistance very sharply because of those reasons, and the institution finds it cannot survive?

Do you understand the question?

Mr. **Kornfeld**. Absolutely, Mr. Brown, and we are very sensitive to that problem. As a matter of fact, for those types of institutions you are describing now, where it becomes possible that we should be thinking about cutting off funds, this entire discussion is coordinated by the Office of General Counsel within the department.

It is not an issue where any one person, including myself, can now make that determination alone. In other words, that is now coordinated in the office of the General Counsel. The recommendation as to why action should be taken, what the impact on the institution will be, and the entire issue is weighed as to what kinds of things we ought to do.

Second, we now have in place a whole series of special training programs to assist those institutions so that they can better cope with their student financial assistance programs.

Third—which I will send to your office—Secretary Califano made a speech to the black medical college leaders, I think Monday night. In that speech, the Secretary reflected on many of these concepts that we are working toward. We are very concerned about this problem, and we are not going to get into a position where tomorrow we are going to cut off funds without giving such a decision careful review from different perspectives.

Mr. **Brown**. I would be happy to see the speech. I would be even happier to see the specific—I wish you would review my question—the specific steps that you take or will plan to take in terms of support, either administrative support, organizational support, financial support for these institutions.

I would like to ask one other question because I am so pleased that the chairman has gotten into this hearing. As I said, I think it has come several years later than it should have, but I think it should be a compliment to him that we have gotten into this area.

What vehicle now—through his leadership, again we have an Inspector General in the Department of HEW—what vehicle would an individual student, professor, parent, contractor at one of these institutions, any institutions in the United States, who feels that there may be misfeasance, malfeasance, or nonfeasance in use of Federal funds for operation of what the Federal Government would like to have done and the nature of the contract, what vehicle do they have to ring the bell or pull the chain on this problem? Do you have a vehicle for that in HEW now?

Mr. **Kornfeld**. Yes, sir, we have in the Bureau of Financial Assistance, and perhaps Mr. Morris could talk about HEW generally but we do have such a mechanism within the Bureau of Student Financial Assistance specifically. We have what we call an early warning tracking system. This particular unit receives letters from a variety of persons, institutions, organizations, et cetera, reporting something to us where it appears that Federal aid programs are not operating correctly. This particular unit is responsible for collecting this kind of information and tracking it down to determine if it is more than just a crank letter and that there is some substance in the complaint.

Mr. **Morris**. Mr. Chairman, my office has, in each of our 10 regional offices, a special agent in charge who is available at all times and accessible to the kind of people you describe. We treat their advice in confidence and follow through on those cases that seem to be meritorious.

Mr. **Brown**. So the student, professor, administrator, or parents would not necessarily have to bring a public charge, but could be in touch with the local office of HEW and say we think there is some hanky panky going on, and this is the description of what we think is improper and how they are misusing taxpayer funds at that institution, and you would then investigate it?

Mr. **Morris**. Yes, if we thought it was worthy, sir.

Mr. **Brown**. And even your average Congressman might be able to do that?

Mr. **Morris**. That is correct.

Mr. **Brown**. If there are any average Congressmen.

Thank you, Mr. Chairman. I appreciate your patience.

Mr. **Fountain**. We are going to have to take another recess, and I hope we can get back and get in about 30 more minutes of questioning.

The subcommittee will stand in recess for a brief period of time.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# STUDENT FINANCIAL ASSISTANCE PROGRAMS

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FRIDAY, OCTOBER 6, 1978

House of Representatives,
Intergovernmental Relations
and Human Resources Subcommittee
of the Committee on Government Operations,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain and John W. Wydler.

Also present: James R. Naughton, counsel; Pamela H. Welch, secretary; and John Duncan, minority professional staff, Committee on Government Operations.

Mr. **Fountain**. Good morning.

The subcommittee will come to order.

Under the Rules of the House of Representatives, the Committee on Government Operations has jurisdiction over the overall economy and efficiency of Government operations and activities. This responsibility, insofar as it relates to the Department of Health, Education, and Welfare, and certain other departments and agencies, has been assigned to the Intergovernmental Relations and Human Resources Subcommittee.

The Office of Education is currently spending more than $4 billion annually on student financial assistance programs, and it appears likely that expenditures may exceed [illegible] billion in the near future.

The subcommittee has been concerned for some time about the manner in which OE's student financial assistant programs are being administered. Our previous inquiries, as well as the work of other congressional committees, the General Accounting Office, and HEW's own auditors and investigators, have disclosed serious administrative deficiencies and widespread fraud and abuse in these programs.

Today's hearing is a continuation of a series of hearings initiated earlier this year concerning the extent and nature of fraud, waste and abuse in OE's student financial assistance programs and the adequacy of the corrective actions being taken.

I understand you have no prepared statement, so we will continue our questions.

## STATEMENT OF LEO L. KORNFELD, DEPUTY COMMISSIONER FOR STUDENT FINANCIAL ASSISTANCE, OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE; ACCOMPANIED BY RAYMOND A. BEAUDET, ASSISTANT DIRECTOR, AUDIT AGENCY; AND PETER K. U. VOIGT, ACTING DIRECTOR, DIVISION OF POLICY AND PROGRAM DEVELOPMENT

Mr. KORNFELD. Thank you. We are glad to be here again.

Mr. FOUNTAIN. We appreciate your presence here this morning.

A few days ago, the subcommittee furnished you with a copy of an article from the September 25 issue of Chronicle of Higher Education concerning rejection of some 500,000 BEOG applications from would-be students who might actually be eligible. We will insert that article in the record.

[The article follows:]

[From Chronicle of Higher Education, Sept. 25, 1978]

### A PUNCTILIOUS COMPUTER REJECTS 500,000 APPLICANTS FOR FEDERAL GRANTS

(By Lorenzo Middleton)

WASHINGTON.—More than 500,000 would-be college students, whose applications for Basic Educational Opportunity Grants have been rejected by a computer in Iowa, may still be eligible to receive funds from the government-sponsored aid program this fall, the Office of Education says.

The agency is sending Mailgrams to the unsuccessful applicants, telling them that they were turned down only because their application forms were incomplete or improperly filled out, and urging them to go to their local financial-aid officers for help in completing the forms correctly.

The office also has agreed to allow colleges to calculate the amount of Basic Educational Opportunity Grant funds that students are eligible for, and to make partial payments to students whose applications have been rejected.

So far this year, the B.E.O.G. processing center in Iowa City has rejected 1.2 million applications for the basic grants—three times as many as it rejected last year—because of changes in the application procedures and closer scrutiny of the forms by the center's computer.

Many of the students who were rejected initially were approved after they corrected and re-submitted the forms. Other applicants, however, were reportedly confused when their unaccepted forms were returned, taking it to mean that they were not eligible for the basic grants, which provide needy students with up to half their tuition costs.

The Mailgrams were sent out and the special procedures established after federal officials received complaints that some institutions were experiencing financial setbacks and reduced enrollments because of the rejected applications.

While most colleges around the country have been affected, the problem has been especially severe for small institutions that have large numbers of poor students. Such colleges rely heavily on tuition payments through the basic-grants program, an Office of Education official said.

The new procedures grew out of a meeting in Atlanta early this month, called by the Office of Education as a "training session" to show financial-aid officers from 75 black colleges how to counsel students who had problems with their applications.

During the meeting, however, the aid officers charged that some of their woes stemmed from "unmitigated inefficiencies, problems, and bottlenecks on the part of the Office of Education," said a spokesman for the group.

#### *Liable for overpayments*

They suggested that it might help if their institutions were allowed to calculate the amount of aid to which their students are entitled while waiting for the computer to complete the processing of their applications.

The Office of Education agreed to give that option to any of the 6,000 colleges participating in the grants program, but it warned that the institutions would be held liable for any overpayments that resulted from improper calculations.

> One student aid observer predicted that few colleges would take advantage of the new procedures, however, because of the complicated nature of the calculations and the financial risks involved.
>
> "I would imagine that nine out of ten schools would not take up the option," said Layton E. Olson, vice president of the National Student Educational Fund.
>
> "It's a good option for schools that are going to have problems." Mr. Olson said. "But I think most places that are financially sound would rather hold on [and wait for the government to approve the applications] and not set up a whole new procedure."

Mr. FOUNTAIN. Is the article essentially accurate? If not, in what significant respects is it inaccurate?

Mr. KORNFELD. Mr. Chairman, it is essentially accurate. It is like all articles, it has some exaggerations and overstatements, but basically it is a correct statement.

Mr. FOUNTAIN. How many applicants were rejected by the computer? In your opinion, how many of those were actually eligible, and what is the basis of your opinion?

Mr. KORNFELD. Let me explain the procedure we initiated this year, Mr. Chairman, which may answer that specific question. For this year we initiated three activities in the basic grant program. Our concern is similar to yours. The basic grant program is an excellent program serving very valuable social purposes. We feel very strongly that the integrity of this program must be maintained.

To assure that this objective is achieved, we undertook a number of steps. For example, we initiated a computer edit process which means that as applications are processed, the computer automatically edits them, similar to the IRS edit on tax returns. This insures that the application is internally consistent and complete. In addition to that, we have initiated a validation process. We select a sample of the applications, require that the students furnish substantiation to insure that the data on that application are absolutely correct.

This year, for example, because of the strengthened edit process we rejected approximately 1.3 million applications, which is about 40 percent. There were three major reasons for around 80 percent of these rejections. The first and major reason is that the adjusted gross income, as it is stated and as it relates to other income-related items on that application, was inconsistent, missing or not correct. That accounted for approximately 65 percent of the rejections.

The second reason was that the applications were not signed. Obviously we feel very strongly that the application must be signed because it is in that way that the student certifies that the application is correct.

A third reason is there was no social security number, which is our only means of tracking a student.

Those three reasons alone accounted for around 80 percent of the rejections.

We feel very strongly that what we have done has worked well—the students who have not correctly filled out those applications either because they made honest mistakes or because they were trying to obtain a basic grant larger than they were entitled to, should not be processed and therefore we have rejected those applications.

**Mr. Wydler.** I want to ask a question, if I may. I am troubled by what it says in the article regarding the making of partial payments to students whose applications have been rejected. What does that mean?

**Mr. Kornfeld.** Let me explain that, Mr. Wydler. Five hundred thousand students were rejected and have not yet submitted the correct data needed to process their applications. Clearly, we are concerned that there may be some students—and obviously we do not know what percentage—in that group which may be entitled to a grant but, because they are confused, have not taken appropriate action.

**Mr. Wydler.** I am sure there are. There is no question about that.

**Mr. Kornfeld.** We were concerned that those students might have become caught up in this wash, and we were trying to help them out.

The other complexity to the problem is that some institutions rely very heavily on the basic grant funds because so many of their students are basic grant recipients. If those that are entitled to get through do not get through the system, this could adversely impact the financial life of some institutions in a very serious way.

Therefore, we felt it was very important that we do whatever we could to make sure those students entitled to get the grant do in fact get it. We held meetings with financial aid officers to assist them in helping students and to explain to them what the edit messages meant and what action had to be taken. We were concerned the students might not understand these messages and not know what to do. Since the school year was starting, we thought we needed to provide the institutions with some assistance so they could, in turn, help students.

We also gave the financial aid officers authority for them to have the student come to the financial aid officer, have him correct the application, calculate what the student would be entitled to based on the correction, and give the student 25 percent of that award. Then the application would get submitted normally through the regular process.

When the corrected application comes back, the financial aid officer then would know whether he made a correct or incorrect calculation, and then, when he pays the student the remaining amount of the award, he would make the necessary adjustment.

We also have notified the institutions that, if they proceed this way, and there are any errors in the financial aid officer's calculations, the institution is liable for these errors.

Third, we had the institution sign a statement to us to the effect that they knew they had to accept the liability, if they are going to do that calculation.

Fourth, we are having our program review people work with these institutions who have agreed to do this to make sure we give them all the assistance we can in making the calculations correctly.

**Mr. Wydler.** Let me understand the procedure. If they decide to make the calculation and pay, they have to do that as a precondition of paying the student a partial payment of 25 percent; is that right?

Mr. **Kornfeld**. Yes, sir.

Mr. **Wydler**. If they decide to do both of those things, where do they get the 25 percent? Whose money is that?

Mr. **Kornfeld**. It is basic grant program money.

Mr. **Wydler**. The student is standing there. They have just calculated his money and they say, "You are owed $500."

Mr. **Kornfeld**. They draw down a check for $500 which comes out of the money we have provided them. We put this in their account.

Mr. **Wydler**. I understand, then, where they get the money. Then if they send in this application to you, you put it through the computer anyway?

Mr. **Kornfeld**. Yes, sir.

Mr. **Wydler**. If you come out with a different answer like he is not entitled to anything or he is entitled to $400, you say, "They owe you $100."

Mr. **Kornfeld**. Right.

Mr. **Wydler**. And if there is an overcharge, you say they have to go back against the student and collect it?

Mr. **Kornfeld**. And if they do not, the institution is liable.

Mr. **Wydler**. All right. It sounds like an eminently sensible solution to our problem because obviously any computer can make mistakes.

Mr. **Kornfeld**. Absolutely.

Mr. **Wydler**. So, you are going to get a lot of rejections on technical grounds; that is inevitable. But I think if you have a good procedure to tell people, "You are not necessarily out of the program; you better check with somebody," whoever that is, it will work out pretty well.

Mr. **Kornfeld**. Reluctantly, we agree computers do make mistakes.

Mr. **Fountain**. I expect errors in the use of computers have been responsible for a lot of excessive costs.

Are you in a position to state how many applicants who were eligible may have been rejected by the computer?

Mr. **Kornfeld**. We would not; no. We have processed about 3 million applications to date. We have rejected about 1 million of them as completely ineligible. They are not even going through the process I described. Currently about 500,000 students have had their applications rejected and have not submitted the required information. Some portion of these students may be determined eligible.

Mr. **Fountain**. I notice the article says that so far this year the BEOG program has rejected 1.2 million applications for basic grants. Is that an inconsistency in the story?

Mr. **Kornfeld**. That is about correct. What that means is that the computer rejected them, but the student then corrects the application and returns it to the process.

Mr. **Fountain**. How many of the rejected applicants reapply?

Mr. **Kornfeld**. So far 700,000 have reapplied and right now, Mr. Chairman, about 50,000 per week are reapplying.

Mr. **Fountain**. How many of them were determined to be eligible on the basis of their reapplications?

Mr. KORNFELD. It is very difficult to determine because, as 50,000 corrections are coming through each week, 50,000 new applications are also coming in each week, so it is a revolving kind of thing. It is interesting, however, in the last 4 weeks the number of rejections has stayed pretty constant. It is still over 500,000. What this means is that the new applications are being rejected and getting into this pot as well as some of the applications that are in the pot going through the system correctly.

Mr. FOUNTAIN. What identification, if any, is maintained to disclose which applications are resubmissions?

Mr. KORNFELD. This is set up in the computer system. The computer system is set up so, when an application is rejected, the computer so earmarks that particular application. For example, one thing that has happened in the system, is that a student would submit an application, get rejected and think he will beat the system and submits another application entirely. The computer system is set up so that the new application gets rejected and tells the student he cannot get through the system until he submits his corrected application.

Mr. FOUNTAIN. Mr. Naughton.

Mr. NAUGHTON. Do you have a check in the computer so that if the same social security number comes through twice, it gets kicked out?

Mr. KORNFELD. Yes, sir.

Mr. NAUGHTON. There have been some reports of students who have been applying for BEOG grants at more than one school simultaneously. Were those kicked out by the computer?

Mr. KORNFELD. We have a system now where we do matches by social security number where, for example, a student, who got one SER, which is the form you use to get the award, went to multiple schools and got multiple awards. We now have a system worked out so that when that occurs, we trace down to see what has happened.

It is possible for a student to get awards from two different schools in 1 year. The student could go one semester to each school. But whenever that happens we trace down that fact, and we have identified about five students who are now being investigated.

Mr. NAUGHTON. How can a student using a single SER get grants at two different schools the same semster?

Mr. KORNFELD. He can get duplicate copies of the SER and submit them to different schools.

Mr. NAUGHTON. So that in effect the student submits only one application with one social security number, then duplicates the SER he receives and uses that as the basis for getting a grant at more than one school at the same time?

Mr. KORNFELD. Right. It could be a very legitimate thing. A student is trying to decide whether he is going to one or more schools. The problem is if he gets more than one award, then, of course, he is operating in a fraudulent way.

Mr. NAUGHTON. Is the SER a document easily forged or duplicated in a manner which would permit this?

Mr. KORNFELD. I do not think so. I wish I had a copy of it with me. It would be rather difficult to forge.

Mr. **Naughton**. Mr. Beaudet, could you tell us about the matches that have been made to determine the extent to which individual students have been getting more than one BEOG grant at different institutions for the same period?

Mr. **Beaudet**. We have had a number of matches, Mr. Naughton, primarily to determine whether or not students are recording as income amounts received from social security benefits, Veterans Administration benefits or welfare-type benefits—each of which should have been reported on their grant application form and each of which may have some effect in determining the size or amount of the basic educational opportunity grant. We have not yet run matches to determine whether or not students have received multiple awards from different schools by submitting, say, four or five or six applications. We are aware that in some cases this has been done, and these are now being investigated by the Inspector General's Office of Investigations.

As part of the looking into it, we will attempt to determine how did this happen, what defects there are in the system by which this could be done, and hopefully offer constructive suggestions as to how it can be corrected.

Mr. **Kornfeld**. We have identified five students who have received multiple awards and I have a chronology in front of me describing what happened with them. Their names have been submitted to our Compliance Division, which is going to do the preliminary investigation and turn it over to the IG if the investigation warrants it. These students have received funds from at least three schools.

Mr. **Naughton**. You say five students?

Mr. **Kornfeld**. Yes.

Mr. **Naughton**. How high a percentage do you suppose that represents of the students who are out there who have done this but have not been caught yet?

Mr. **Kornfeld**. We have the exact number—265 have applied to three schools, seven have applied to four schools.

Mr. **Naughton**. Simultaneously?

Mr. **Kornfeld**. Simultaneously.

Mr. **Naughton**. Did they receive complaints——

Mr. **Kornfeld**. And some could be legitimate. The point must be made because a student can change schools. The way the system is set up now, we know that students applied at three different schools. It may be legitimate. They might have gone to school at three different institutions, at different times in the year, so you cannot come to the assumption that these people are guilty as is.

Mr. **Naughton**. How did you get the names of those 265 students, some of whom may have been engaged in improper conduct and some may not?

Mr. **Kornfeld**. We do it internally, computer matches within our computer system.

Mr. **Naughton**. Have you matched the whole universe to obtain this 265?

Mr. **Kornfeld**. I believe we have, yes. Our entire year recipients.

Mr. **Naughton**. Are you sure there are no holes in your procedure; that 265 is the maximum?

Mr. **Kornfeld**. As I say, I reluctantly agree computers make mistakes and this might be so. I think this is a reasonably accurate number.

Mr. **Naughton**. There are reports indicating this may not be an uncommon practice, particularly in large metropolitan areas where there may be six or seven junior colleges within a radius of 5 or 10 miles, so that a student, if he had larcenous intent and were able to manage the necessary documentation, could enroll at as many as three or four at the same time and presumably get BEOG grants at each one. But your testimony at this point is that you have made all the computer matches that can be made?

Mr. **Kornfeld**. Yes; and our internal plans are that this is a continuing process and we are going to continue to make matches. Every time we identify a student who receives a grant from more than one institution, we will check his name against a roster and make sure that he did get a grant. For example, for a lot of students, it may appear as if they have gone to two schools, but they have only received an award at one school. This is certainly legitimate.

Mr. **Naughton**. You make this match by getting rosters from the schools of the names of students to whom they have made BEOG grants, and that roster includes, I presume, a social security number?

Mr. **Kornfeld**. The way the system works is 60 percent of the funds are first allocated to the institution. These are the funds by which the institution draws down money for these grants. At certain times of the year the institution has to report to us how much money they have spent for all of the grants they made and they attach a copy of the SER's to that report. What we do first is the computer match to determine whether there is some student that is indicated on our record has submitted his SER to more than one school.

We determine from the roster if in fact he received grants from more than one school. We have determined that the five students I mentioned have received grants from at least three schools which makes it appear to us there may be fraud.

Mr. **Naughton**. For what year have those matches been made?

Mr. **Kornfeld**. It is the previous school year which is——

Mr. **Naughton**. 1977-78?

Mr. **Kornfeld**. No; at the time the match was done, 1976-77 was the most recent recipient data available.

Mr. **Wydler**. Nothing is going to be perfect. Obviously if a person wants to commit fraud and is clever enough and arduous enough and keeps working at it, he can beat the machines. He may be caught and he may not. Obviously you are not going to have a perfect system. What you are doing is excellent, and I personally just want to put on the record here my congratulations to you for your efforts to put these systems in some sort of order, and the fact that you are after five people has more good effect than anything else you can do. If you get a couple of these people, it will warn everybody else.

Do not tell us everything you are doing in the system. We would like to know there is a little unknown where nobody knows what you might pull out of the system.

Mr. **Kornfeld**. I agree with you wholeheartedly.

Mr. **Naughton**. Is any effort made to verify social security numbers as they are submitted? In other words, one way to beat this system is for a student to give a different social security number at each institution. Is there a process that can be used for verifying social security numbers, and has that been used?

Mr. **Beaudet**. This is one of the planned matches that the Inspector General's Office is making. We do know that individuals have filed applications using different social security numbers. In this year's plan, as part of our program with the American Institute of CPA's, we are providing for certain confirmations of students who have been the recipients of BEOG grants. Part of this confirmation process we feel will pick up students who are filing under more than one application form, using multiple social security numbers.

As I mentioned previously, it has been brought to our attention that we do have a number of instances where it has happened, and these are under investigation right now. We are trying to determine how it happened and what the defect in the system was, if any.

Mr. **Fountain**. The subcommittee will stand in recess until we can answer this vote.

[Recess taken.]

Mr. **Fountain**. The subcommittee will come to order.

Sorry for the delay. We were engaged in a procedural hassle as to how we are going to operate between now and adjournment.

What information, if any, was given to rejected applicants as to the reason or the reasons for their rejection and the course of action that they should follow in reapplying?

Mr. **Kornfeld**. When the application is rejected there is a computer message that goes back to the student citing the reason the application was rejected. The student then is supposed to correct the application and resubmit it. The one thing we did at the meetings that we held, those two meetings on Saturdays, was to try to educate the financial aid officers so that they thoroughly understood what these messages meant and what they were to do if presented with a SER containing that message by the student.

Mr. **Naughton**. Mr. Kornfeld, could you supply the subcommittee copies of the messages which were sent out for each of the major categories of rejection?

Mr. **Kornfeld**. Yes.

[The information provided appears in app. 5, attachment D.]

Mr. **Kornfeld**. I would like to present to the subcommittee, for the record, the entire package we sent each financial aid officer which shows the message, what the aid officer is to do, and how he ought to proceed on this 25 percent.

[See app. 6.]

Mr. **Fountain**. On the average, how long did it take to process and reject these applications and send the notice of rejection to the applicant?

Mr. **Kornfeld**. The procedure calls for the corrected application to be processed within 14 days. Unfortunately, during May or thereabouts, when the rejections came in at an overwhelming number, the system slowed down to about a 6-week cycle, which was very bad, in our opinion. As soon as we got on top of that we had the contractor work two shifts around the clock. We insisted that the contractor put in more toll-free telephone lines, 800 numbers, so that when students inquire about their situation, they can get an answer. Our concern was that students were encountering too many busy signals.

Mr. NAUGHTON. Did the contractor have to absorb the cost of that or was that an additional bill to the Government?

Mr. KORNFELD. It was an additional bill to the Government.

Mr. NAUGHTON. How much did it cost?

Mr. KORNFELD. I do not know but I will supply it for the record.

[The following statement was subsequently supplied:]

At this time, we do not know what cost implications are associated with increasing the number of toll-free lines at out application processing center. The basis for payment for this function of the contract is a per unit (or call) cost. The contract also included a maximum number of calls at that price. We have submitted a contract amendment to raise that ceiling and are awaiting the contractor's per unit cost proposal at that higher level. When that information is available, we will be happy to forward it to the committee.

Mr. NAUGHTON. Didn't the original contractor provide for a time deadline?

Mr. KORNFELD. Oh, I thought you were talking about the telephone lines. The contract does require that the turnaround time be 14 days or less. Keep in mind, as I mentioned earlier, we had initiated the validation activities, the tightened computer edits, plus the multiple entry data system. All three changes were implemented in this year, and we just did not anticipate the overwhelming workload caused by the large number of rejections. We did not believe there would be that many.

Mr. NAUGHTON. Did the contractor absorb the additional costs of the overtime and double shifts?

Mr. KORNFELD. I think it is being charged to the Government. I will have to confirm that.

Mr. NAUGHTON. About how much would that amount to?

Mr. KORNFELD. I do not know but I will furnish it for the record.

[The following statement was subsequently provided:]

The original cost for the processing of applications was based on a per unit cost assuming a 20 percent rejection rate. Because the rejection rate was much higher than that, the volume of corrections (included in the per unit cost) to be processed increased significantly. We have, therefore, asked the processing contractor to submit per unit cost proposals based on that higher rejection/correction rate. When we have received that information and completed the negotiations process, we will know what the additional costs for the increased staff and overtime will be.

We expect to have that information in the next few months.

Mr. FOUNTAIN. When we ask a question, do not hesitate to call on one of your colleagues who may be in a better position to answer.

Mr. KORNFELD. I should mention, by the way, the savings or the potential savings on the rejections more than compensate for any overtime which might have been involved.

Mr. FOUNTAIN. What steps, if any, were taken to encourage applicants to file early?

Mr. KORNFELD. There is a problem with the whole question of filing early. We, of course, would like students to file as early as possible, but we also are insistent that the information that is going to be reported on that application is going to be correct, particularly the adjusted gross income. We are insisting with a lot of protests from the various educational institutions that we do not want that information filed until the applicant actually knows what the parent's income is for the previous year.

Obviously that cannot be available in many cases until sometime in January, because that is the first time that people get their W2's and then file their taxes subsequently. There is a big issue being debated now that this requirement slows down the process as far as the institution is concerned, and we are very concerned about that. But, on the other hand, we feel that validation and correct data are more important than early filing, and we are still insisting that the application be submitted after the parent knows what his or her income is for the previous year.

Mr. **Fountain**. What steps were taken, if any, to encourage applicants to respond promptly if their applications were rejected and there was some likelihood that they might still be eligible?

Mr. **Kornfeld**. In order to try to get that moving, we did a number of things. First we held two meetings on Saturdays, in September; the first Saturday meeting was in Atlanta and the next was in five cities: Philadelphia, Atlanta, Chicago, Dallas, and Los Angeles. At those meetings we trained the financial aid officers on the entire processing. In addition to that, on a sample basis, we sent out 50,000 mailgrams. The intent of those mailgrams was to get those students who may have been eligible for a grant but were confused about the message, to visit their financial aid office and get the necessary assistance so that they could get back into the system.

Unfortunately, our intent was for those mailgrams to be distributed throughout the country. As a result of my mistake in the way I instructed the people involved. the messages went to five States instead of randomly throughout the country.

Mr. **Fountain**. What did the mailgram say?

Mr. **Kornfeld**. The mailgram instructed the student, in words to this effect, that if he is confused, he should see his financial aid officer, who will provide him with the necessary assistance. What we are doing now, since we do not know the actual impact of the mailgrams, is to send out rosters to each school which include the names of basic grant applicants who listed that school as the possible school he might want to attend. This roster used to go out every month. We are now increasing the frequency of this particular roster and it is going out every 2 weeks. The financial aid officer now will get a list every 2 weeks of all those basic grant applicants who stated they intended to enroll in that institution, and what the status of their application is.

Mr. **Fountain**. How did you select the persons to be sent the mailgrams?

Mr. **Kornfeld**. We intended a random distribution throughout the country. As I mentioned, because of my not articulating that as well as I should have, it went to the top of the alphabet rather than on a random basis.

Mr. **Naughton**. That was Alaska, Alabama——

Mr. **Kornfeld**. Yes; Alaska, Alabama, Arkansas, Arizona, and California.

Mr. **Naughton**. Did it go to all of California?

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Mr. **Kornfeld**. No; 25,000 went to California and the other 25,000 went to the other four States.

Mr. **Naughton**. How did you know that the 50,000 persons that were selected fit in the category that you wanted to contact, that is, those whose applications had been rejected but might still be eligible?

Mr. **Kornfeld**. This was what the intent was. The intent was to send it only to those students in the correction cycle; in other words, those which were rejected. This is a moving target and unfortunately it is somewhat of a difficult computer problem, but we could have been more careful about it. Rather than selecting only those students who are in the rejection cycle, it went, unfortunately, to some students who had been through the process and had been paid a grant. That should not have been done.

Mr. **Naughton**. About how many of those that you wanted to reach did you actually reach?

Mr. **Kornfeld**. We do not know at this point. Nor will we ever know, probably.

Mr. **Naughton**. What was the cost of the mailgrams?

Mr. **Kornfeld**. The mailgrams cost approximately $50,000.

Mr. **Naughton**. What about the associated computer work? Was there an extra charge for that?

Mr. **Kornfeld**. Probably, but I do not think that could be significant.

Mr. **Naughton**. So the total cost of this was in the order of $50,000?

Mr. **Kornfeld**. Yes.

Mr. **Naughton**. And the Government will absorb that?

Mr. **Kornfeld**. Yes, sir.

Mr. **Fountain**. Did you take any other action, if any, with respect to the rejected applications?

Mr. **Kornfeld**. As I mentioned, we are increasing the frequency of the roster. We are also looking into other possibilities. We are concerned there is some confusion in the financial community out there. For example, there are too many applications being used which results in confusion. And we do not want those students who are in fact eligible to get caught up in the wash. We have met with the Secretary and we have a task force working on a project to develop a single application form. As you recall, the Secretary sent me a memo, which I read in the last hearing record, and we are working on that. Hopefully, one of these days we will have one application for all Federal funds which will reduce significantly the type of confusion which is causing some of these problems today.

Mr. **Naughton**. You mentioned two Saturday meetings, one in Atlanta and one elsewhere.

Mr. **Kornfeld**. That is correct.

Mr. **Naughton**. Did each of the financial aid officers that came there pay his own travel expenses?

Mr. **Kornfeld**. Yes, sir.

Mr. **Naughton**. About how many did you invite and how many attended?

Mr. **Kornfeld**. We invited about 6,000, and 900 financial aid officers attended.

Mr. Naughton. Did you get any complaints from financial aid officers with respect to the sending of mailgrams and the confusion?

Mr. Kornfeld. Yes, we did. On the other hand, we also have received some letters of commendation. I would like to read into the record a letter that is addressed to Mr. Peter Voigt from Ms. Patsy Braxton, president of the National Foundation of Aid Officers Association in North Carolina. She says:

> Dear Mr. Voigt: Just a quick note to express the appreciation of the members of the North Carolina Association of Student Financial Aid Administrators for the quick action brought about by the Office of Education Basic Grant program per the meeting held across the nation last Saturday.
>
> If the meeting did produce but one thing, it did indicate that the Office of Education cares and that, when pursued properly, action can be taken.
>
> I think that one of the greatest satisfactions of the entire meeting Saturday was the fact that suggestions and comments are listened to and hopefully it will be put into the proper program. If I or the North Carolina Association can be of further assistance to you, please do not hesitate to let us know.
>
> Patsy Braxton.

Mr. Naughton. It is interesting that you selected North Carolina.

Mr. Kornfeld. For subtle reasons, Mr. Naughton.

Mr. Naughton. About how many letters of complaint and compliment did you get concerning this?

Mr. Kornfeld. I really do not know. It did cause confusion, there is no question about that.

Mr. Naughton. Would it be burdensome to supply a copy of each letter complaining and each letter commending you?

Mr. Kornfeld. We will try. I do not know.

Mr. Fountain. If that is not an unnecessary burden. If you have a tremendous number I do not see the necessity of it.

Mr. Naughton. We will come down and look at them if there are too many.

[The following information was subsequently provided:]

We reviewed our files to determine how many letters we received specifically dealing with the special meetings held on September 9 in Atlanta and on September 16, 1978, in Atlanta, Dallas, Philadelphia, Chicago, and Los Angeles. In addition to the letter from the North Carolina Association of Student Financial Aid Administrators which was read into the record, the attached letters deal specifically with these meetings.

Ohio Association of Student Financial Aid Administrators,
*Wooster, Ohio, October 4, 1978.*

Hon. Joseph A. Califano,
*Department of Health, Education, and Welfare, Washington, D.C.*

Dear Mr. Califano: On behalf of the Ohio Association of Student Financial Aid Administrators, I wish to thank you for the efforts taken by the Office of Health, Education and Welfare; in particular the Bureau of Student Financial Aid, regarding recent meetings and emergency procedures centering around the Basic Education Opportunity Grant program. We trust that concerns from the financial aid community were brought out at these meetings, and we assume that appropriate action will be taken by you and your staff to prevent these problems from arising in future years.

As I am sure you are aware, a crisis centering around the Basic Education Opportunity Grant program developed so that many institutions and students were affected. In some cases, without the emergency procedures developed, some students may not have been able to attend post-secondary education during this current term. In some cases, I presume that this may still be the case if the emergency procedures were not appropriate or developed at an early enough time for some institutions.

Over the years, there has been a feeling that the Office of Health, Education and Welfare did not have faith in many of the individual financial aid offices throughout the country. I think, however, that in this case, the financial aid community, through their activities, may have made it possible for many students to work their way through the Basic Grant process and attend the post-secondary institution of their choice.

There were certain developments which we feel you should be aware of. Most of these concerns created problems in the administration of the Basic Grant program or other aspects of the financial aid process at individual institutions. I should like to itemize these concerns for you:

1. There was much concern regarding the timing of the emergency meetings held at various locations in the country. It is our understanding that many of the Basic Grant problems were discovered as early as May and June, and yet the meetings for emergency procedures were not held until September 16, 1978. For some institutions, this may have been beyond the date which would be of use.

2. The amount of time allowed to make preparations to attend the meeting were not adequate. In my own office, I received the telegram from Mr. Kornfeld on September 13; then there was a follow-up mailgram that we received from the regional Office of Education which arrived on September 15, 1978. This was not enough time for many aid officers to make plans to attend. In addition, many aid officers do not have the budget to attend such meetings. In Ohio, you should be aware that the Ohio Association of Student Financial Aid Administrators sent two representatives from the State who brought information back to the State which was disseminated through the mail. In any case, more planning time would have been helpful.

3. There was considerable concern raised regarding the fact that regional members of the Office of Education were not included as participants at the emergency meetings. Financial aid officers in Ohio have come to depend on regional members of the Office of Education and feel that they have been most helpful in the past. It is also assumed that as aid officers in Ohio question the emergency procedures and other aspects of the Basic Grant processing problems, they would continue to depend on regional offices. If they are not included in these meetings, it makes it more difficult for them to assist aid officers in the field.

I trust you will take these concerns in the spirit that they are meant. More specifically, the financial aid community in Ohio is concerned about financial aid procedures and we wish to assist students in the most appropriate fashion. We, too, are concerned about fraud and abuse of Federal financial aid programs, and we understand the necessary additional edit checks that are needed in the system. We feel that the Multiple Data Entry system can be a viable system for students and families to apply for student aid, and we do not wish to see the concept of MDE eliminated because of the obvious processing problem that has occurred.

I have asked Mr. Roy Chiles, Director of Financial Aid at Cuyahoga Community College in Cleveland, Ohio, to chair an ad hoc committee for the Ohio Association of Student Financial Aid Administrators. His committee will think through the processing as it took place this year and make appropriate recommendations to our Executive Committee. Once these recommendations are developed, I will forward them to the appropriate officials in the Department of Health, Education and Welfare in an attempt to assist with future Basic Grant processing. It was our feeling that we should not only react to concerns stemming from the Basic Grant problems, but also work on possible solutions to these problems. The Ohio Association will look forward to appropriate changes in the system so that all of our needs may be met as we attempt to provide access and choice to post-secondary education for needy students. If we can be of assistance to you as you reflect on these concerns, please feel free to call on us.

Sincerely,

PAUL M. OREHOVEC, *President.*

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NATIONAL STUDENT EDUCATIONAL FUND,
*Washington, D.C., September 14, 1978.*

Mr. LEO KORNFELD,
*U.S. Office of Education,*
*Washington, D.C.*

DEAR MR. KORNFELD: I would like to express strong support for your emergency steps to clear up the backlog of over 500,000 "Rejected" (incomplete) Basic Grant applicants in the next month.

If you are not already doing so, I would encourage your consideration of the following steps:

(1) Sending immediate press releases to general circulation press, particularly education, business and consumer affairs editors, particularly in the metropolitan areas you have identified as having the largest number of problem institutions; to syndicated columnists such as Sylvia Porter; and lastly to student newspapers, particularly at problem schools.

These actions will bring awareness not only of the individual who receives a mailgram, but of the entire community, including family, counselors and others who might ask the question, "why aren't you in school? Problem with Basic Grant application?" These actions might be combined with other communications with specialized lists of counselors, particularly at educational opportunity centers. The TRIO Program office might be able to supply such mailing lists.

(2) Identifying the 800 number in Iowa City for campus financial aid administrators to call in order to clear up any problems they will be having with hand calculations.

If there is anything which student groups can do to bring awareness and assistance in this situation, please contact me or any of the other groups in D.C.

Sincerely,

LAYTON OLSON, *Vice President.*

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OCTOBER 6, 1978.

Mr. LAYTON OLSON,
*National Student Educational Fund,*
*Washington, D.C.*

DEAR MR. OLSON: Thank you for your letter regarding the emergency procedures we have established with respect to the Basic Grant program.

The "backlog" in the processing of Basic Grant corrections has been cleared up. There are, however, still some 500,000 students who have not had an eligibility index calculated because of incomplete or inconsistent information. Of course, this does not represent the same persons who were in a "reject" status in early September, since we are continuing to process over 50,000 new applications as well as over 50,000 corrections each week.

The fact that these students were rejected in the first place is not necessarily a serious problem. Strengthening the edits in the application processing system was designed to stop incomplete or inconsistent applications. Our analysis of the reasons for rejection is proof that these strengthened edits were working. For example, 88 percent of all applications rejected are because of one of three reasons: no social security number, no signature, or inconsistent income information. Of that number, well over 60 percent of the rejections are caused by income-related problems.

While we are sure that students making honest mistakes are part of that group of 500,000 who are currently in a reject status, we also know that many of these students deliberately misreport information to obtain Federal benefits.

However, we should note that whether the errors are deliberate or simply honest errors, we are committed to the goal of ensuring that Basic Grants are given to students on the basis of valid information. In this context, student associations can perform a valuable service by "spreading the word" that student aid applications must be completed accurately and completely or they will not be processed. This particular point is one we will be stressing in our training activities and in our publications for the 1979–80 academic year.

We should also note that the decision to participate in the special procedures is left to each school. Since less than 30 schools have indicated that they are planning to use these procedures, any kind of national media coverage of these procedures would seem to be inappropriate.

Finally, we have provided financial aid officers who are using these procedures with a toll-free line to call for assistance in calculating the eligibility index of their students. The number we have given them is our Information Center not the Basic Grant processor.

Thank you for your support and offer of assistance.

Sincerely,

LEO L. KORNFELD,
*Deputy Commissioner for Student Financial Assistance.*

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Mr. FOUNTAIN. I am going to move now to the statute of limitations problem.

During our July hearing Mr. Wydler and other members expressed continuing interest in the steps being taken by HEW to avoid being barred by the statute of limitations from collecting defaulted loans. Secretary Califano adopted on the spot a suggestion by Congressman Cunningham that waivers of the statute be obtained to avoid the necessity of instituting litigation in the cases where the statute was about to run. What progress has been made with respect to the implementation of that?

Mr. KORNFELD. Immediately after that hearing the Secretary instructed Mr. Dick Beattie, the Assistant General Counsel for HEW, to look into that matter and determine the most effective way to accomplish this. Mr. Beattie has reported back to the Secretary that the way to accomplish this would be through legislation. We are now planning to ask for legislation on that matter and we intend to pursue it aggressively.

Mr. FOUNTAIN. So you have not obtained any waivers from any of the borrowers?

Mr. KORNFELD. No. We cannot. It is the opinion of the General Counsel we would need legislation for that.

Mr. DUNCAN. Has that legislation been drafted?

Mr. KORNFELD. I do not know if it has.

Mr. DUNCAN. Would you please see we receive a copy.

Mr. KORNFELD. Yes.

I understand Mr. Beattie would like to work with the committee in drafting that legislation.

Mr. DUNCAN. I guess in determining whether legislation would be the most appropriate way, would you also send us the material on a nonlegislative remedy if your counsel feels there is one in existence?

Mr. KORNFELD. Would it be helpful—I am sure Mr. Beattie would be happy to cooperate—if he met with you and discussed the entire matter?

Mr. DUNCAN. Yes; we would like to pursue that.

Mr. KORNFELD. Fine. Thank you very much.

Mr. NAUGHTON. In the meantime, could you supply a copy of Mr. Beattie's opinion of why that legislation was necessary?

Mr. KORNFELD. Yes.

Mr. FOUNTAIN. Who has been assigned responsibility for implementing this recommendation?

Mr. KORNFELD. The Secretary assigned it to Mr. Beattie.

[Mr. Kornfeld subsequently provided the following statement:]

A formal waiver of the statute of limitations is not required. The General Counsel has advised us that under the applicable statute, 28 U.S.C. 2415(a), if a defaulter makes a partial payment or written acknowledgment of the debt, the right of action against the defaulter shall be deemed to accrue again at the time of that payment or acknowledgment. That means that the six-year statute of limitations will not run with respect to any defaulter if the amount of time for collection is extended by a partial payment received from the defaulter, regardless of how small, or by at least getting him or her to acknowledge the debt in writing. We are concentrating on those older loans in order to obtain partial payments or acknowledgments and thereby extend the time available for litigation if that should be necessary. We have also discussed with the Department of Justice the possibility of obtaining such acknowledgments in return for withholding litigation against defaulters.

Legislation would be necessary only if we wanted to require students to waive the statute of limitations at the time they apply for a loan. However, we are not proposing to require such a waiver because it should not be necessary if the collection process is administered in a sound fashion, and because it would be inconsistent with a long line of judicial precedents that have held such waivers to be invalid when required at the time a contract is made.

Mr. Fountain. During our hearings 2 months ago, we asked for statistical data on the number and amount of loans on which mandatory collection would be barred because of the statute of limitations. I do not believe that information has as yet been supplied. Do you have that information?

Mr. Kornfeld. No. It is very difficult. I do not know if we will be able to supply it to the subcommittee, Mr. Chairman.

The statistics are on this order of magnitude. There are about 200,000 defaulters 4 years or older. There are about 10,000 that are 6 years or older. Our concern, of course, is there are some numbers which are 5½ years old that will soon become 6 if they do not get repayments. We are trying to work out a system so that we concentrate on that.

Our entire collection system is concentrated on going over the older accounts first. We do not know how many students may be eligible to raise the statute of limitations as a defense, and we are following the philosophy that we are going to pursue them all regardless of the age. As you know, the only time that the statute of limitations pertains is when the student objects and states it is 6 years old and we cannot collect. We are not mentioning the statute of limitations.

Obviously, when a student does complain, we have to honor his complaint and write it off. This is done in 10 regions and it is difficult for us to really know how many fall into this category without polling each of these 10 regions. I know for a fact it is not a large number. The total number written off to date has been 15,000 in the history of this program. The majority of these write-offs are because of students owing less than $25.

While I am on the subject of collections in default, I would like to mention for the record, too, that last week alone we collected—in one single week—$480,000 from student defaulters, which is almost what we used to collect in an entire month last year.

Mr. Fountain. To what do you attribute this larger amount?

Mr. Kornfeld. We have a collection system in place now. We pursue these students aggressively; we follow up. It is sort of interesting, almost amusing, as to the impact of these actions. I have a letter on my desk from a person who enclosed a check for $1,200 and in the letter he fussed at us and said, "I am getting tired of you people writing letters to me and bothering me. Here is how much I owe you and don't bother me any more."

In addition to that, we have made other arrangements. As an example, IRS now provides us with current addresses of defaulters, which is in accordance with the law, and we submitted a tape of 250,000 names to IRS, which has just been returned. Those new addresses are in the computer system now and all delinquent letters are going to go to those new addresses, which will continue to improve the situation.

Mr. Naughton. In connection with the exchange of data with IRS, is there some problem with a missing tape with 100,000 names that somebody lost, either IRS or——

Mr. Kornfeld. No. There was a problem. We sent four tapes to IRS and three tapes came back correctly. With the fourth tape, there was a computer format problem. That tape was resubmitted to IRS and it has been given back to us corrected.

Mr. **Naughton**. So there is no problem on it?

Mr. **Kornfeld**. Absolutely none.

Mr. **Fountain**. Do you have any procedures for automatically taking action on loans where there is a statute of limitations problem in time for the litigation to be filed?

Mr. **Kornfeld**. Well, the only thing we have really done is, we have aggressively gone after the older ones first, hoping we catch them before that 6 years is up, but that is the only thing we have done to date.

Mr. **Naughton**. Are your regional offices unable to automatically call attention to defaulted loans which are coming close to statute of limitations problems?

Mr. **Kornfeld**. Well, it is not a matter that they cannot. It is a very burdensome task. We have, as you know, 350,000 defaulters, to which I must add that—as Mr. Califano found last week—for the first time in the history of the program the number of defaulters is going down. We still get new claims but overall it is going down. It is running around 340,000.

In order to accomplish this, what each collector would have to do would be to go through each card for the defaulters, determine the age of the account, and so forth; it can be done but it would be burdensome.

Mr. **Naughton**. Do you have a shortage of personnel? Have you compared the possible losses of loans being lost through the statute of limitations compared with the cost of additional personnel who might make it possible to catch these before the 6 years are up?

Mr. **Kornfeld**. We have no shortage of personnel whatsoever. Congress has been very responsive to our needs and has responded to the various supplemental requests we have made for additional staff. We may not like to see it but we will have the largest collection force in this country by next year. There is absolutely no shortage.

As a matter of fact, we are very thankful for how Congress has reacted to our requests in this area. It is not a matter of resources; we feel it is very important that they collect money and that is what we are trying to do. We are collecting close to $2 million a month now. And we just feel that diverting them to any other tasks is just not cost-effective. The reason is, we think there are very few people who are coming back and raising the statute of limitations question, because this is not known to most students, I very rarely hear that is the reason for a writeoff.

Most of the writeoffs are, as I mentioned before, because the balance is $25 or less, mostly an interest dispute, and we write off those accounts. Since the inception of the program, we have only written off 15,000 accounts.

Mr. **Naughton**. Of course the normal place for the statute of limitations to be raised would be by the U.S. attorney when you went to him with a request that litigation be instituted on a claim more than 6 years old.

Mr. **Kornfeld**. But we would pursue that student ourselves unless the student——

Mr. **Fountain**. We are going to have to take a recess for another vote.

[Recess taken.]

Mr. **Fountain**. The subcommittee will come to order.

Mr. Naughton.

Mr. **Naughton**. In a 1976 report to Congress, HEW stated that: "An estimated 800 or 900 proprietary schools participating in the campus-based programs depend on absentee financial aid administration by outside consultants."

Has that situation changed since February 1976 when this report was sent up?

Mr. **Kornfeld**. I do not know, Mr. Naughton. I know there are lots of consultants out there, but I do not know of the number of schools.

Mr. **Naughton**. Who is your expert on consultants?

Mr. **Kornfeld**. I do not think we have anyone who could cite the number of schools. I know we do not routinely keep records of that sort.

Mr. **Naughton**. Does OE have any limitations or restrictions on the use of such outside consultants?

Mr. **Kornfeld**. No; we have no restrictions, nor do we think we have legal authority to permit us to do anything about outside consultants. We concentrate on the institutions and their performance. What we try to do is train financial aid officers so that they know what they are doing and won't need the services the consultants are providing, but our concentration is with the institutions and not with the consultants.

Mr. **Naughton**. Is this particular breed of consultant something that has grown up since the Federal Government got very heavily into the business of student financial assistance?

Mr. **Kornfeld**. I would suspect so. Part of the problem is the Federal Government's fault because we have made these programs, in my own personal opinion, overly complicated. What we should be striving for in my opinion is to simplify these programs. I think that is the way we could reduce the need for consultants. As long as these programs are as complicated and as confusing as they are, people need assistance. Unfortunately, they resort to consultants.

Mr. **Naughton**. Is it true that some of these consultants are former employees of the Office of Education?

Mr. **Kornfeld**. I think there might be some. I think it should be stated, however, that some of these consultants are also providing a valuable service. I think it is unfair to label them all as bad people.

Mr. **Naughton**. You did not think I was doing that, did you?

Mr. **Kornfeld**. Well, I just feel that that point must be made.

Mr. **Naughton**. It seems to me they would be in a better position to give advice if they had been in the service.

Mr. **Kornfeld**. That is correct.

Mr. **Naughton**. Have you made any inquiry or investigation to determine the extent to which problem schools are being represented by certain consultants?

Mr. **Kornfeld**. The way we ascertain problem schools is by certain criteria. That is how we determine at which schools we are going to do program reviews and compliance investigations. The consultant or the financial aid officer is not considered in that set of criteria.

Mr. **Naughton**. So you have not checked to see whether there is a correlation between the activities of certain consultants and perhaps the fact that a high percentage of their clients might be problem schools.

Mr. **Kornfeld**. We have not, that is correct.

Now I think Mr. Beaudet——

Mr. **Naughton**. I was about to ask him.

Have you done anything in that area?

Mr. **Beaudet**. Yes; we have not made a correlation to that effect, but we are taking a look at the use of consultants and we have on a judgmental basis selected out a few for our review and to see whether there is any correlation between the consultant, what he is doing for the school and whether the consultant's work itself might be the cause of the school's problems. We are doing that now.

Mr. **Naughton**. Do you have any results on that study as yet?

Mr. **Beaudet**. No; the study is underway at the moment.

Mr. **Naughton**. When do you anticipate it would be completed?

Mr. **Beaudet**. We would hope within 60 days, about 60 days.

Mr. **Naughton**. What can you tell me about the activities of the consultant named Gene, G-e-n-e Miller?

Mr. **Kornfeld**. The only thing I know about Mr. Miller is that he committed a fraudulent act in his past, he was punished and he is now operating as a consultant in the financial aid field.

Mr. **Naughton**. Do you have any restriction against an individual acting as a consultant while he is serving a prison term?

Mr. **Kornfeld**. We do not have the authority in our opinion to do anything about which institutions select consultants and who they select.

Mr. **Naughton**. Is it true that Mr. Miller was sentenced for participating in a bribery situation in the Dallas——

Mr. **Kornfeld**. I do not know the details, but I know he was convicted and he has served his punishment and he is back in civilian life, so to speak, and operating as a consultant.

Mr. **Fountain**. Who pays him? The school?

Mr. **Kornfeld**. The institutions do.

Mr. **Fountain**. What institution is this now?

Mr. **Kornfeld**. Whichever institutions he serves. In other words, he tries to get business from these various institutions and they hire him as they would any other type consultant.

Mr. **Naughton**. Was Mr. Miller operating as a consultant during the 1977-78 school year?

Mr. **Kornfeld**. I do not know for sure. I would suspect so.

Mr. **Naughton**. Is it true that during the period from November 1976 to March 1978 Mr. Miller was incarcerated in the Seagoville Detention Center?

Mr. **Kornfeld**. I do not know the details. I know that he served his punishment and he is back operating——

Mr. **Naughton**. Our information is that Mr. Miller was acting as a consultant during that period of time. My question is, how can a man act as a consultant while he is in prison serving a sentence for having previously embezzled funds from the Government?

Mr. **Kornfeld**. And I obviously cannot answer that question because we did not hire him as a consultant. The institutions choose to hire him as a consultant and we have no authority to prevent this from happening.

Mr. **Naughton**. What services is he performing while——

Mr. **Kornfeld**. It gets back to my original point. These programs are very complicated. Some institutions obviously think that he could provide a service in assisting these schools to muddle their way through these complicated procedures that we have. They feel he can provide a service. They choose to hire him. There is no way we can control that.

Mr. **Naughton**. Did they go to the prison to see him?

Mr. **Kornfeld**. I have no idea.

Mr. **Fountain**. I would like to know the names of the institutions who selected a man in prison to consult anybody on anything, if he was serving a sentence for embezzlement and bribery, because he might well encourage students to do the same thing.

Mr. **Kornfeld**. That is the implication I was trying to make. We have no authority to stop this or do anything about it.

Mr. **Fountain**. You can bring this to the school's attention.

Mr. **Kornfeld**. The institutions select this person, obviously.

Mr. **Fountain**. But you can make a suggestion to the institution this is not the appropriate type of person to provide as a consultant? After all, these are Federal dollars going out.

Mr. **Kornfeld**. It is the institutional dollars they pay him out of.

Mr. **Fountain**. It comes from the taxpayers.

Mr. **Kornfeld**. Indirectly it may; yes.

Mr. **Naughton**. Can you provide a report to the subcommittee showing whether Mr. Miller is acting as a consultant and was acting as a consultant while he was in prison and just how he managed to do that?

Mr. **Kornfeld**. We cannot; perhaps the Inspector General can.

Mr. **Beaudet**. Yes, we will look into that and provide such a report.

[The following material was subsequently provided:]

### Chronology of Gene Allen Miller

Removed from HEW rolls—June 6, 1975.

Indictment—June 3, 1976.

Arraignment—pled innocent—June 10, 1976.

Trial began—August 9, 1976.

Pled guilty to bribery—August 13, 1976.

Sentenced—September 27, 1976 to 2-year imprisonment and fined $10,000.

Set up a self employed consulting firm on or about July 1, 1976. Was a consultant to various proprietary schools, particularly beauty schools, in student financial aid matters. Miller prepared forms OE 1036 "Institutional Application to Participate in Federal Student Financial Aid Programs" for fiscal year 1978. Miller was a consultant to approximately 24 schools in fiscal year 1977 and fiscal year 1978.

Entered prison—November 18, 1976.

Released to halfway house—March 1978.

Discharged from custody—May 6, 1978.

Evidence of continuation of consultant role while in prison: Letter from Miller to Galbreath, OE, Region VI Dallas dated December 12, 1976, complaining about the panels which award funds to schools he represents.

Evidence of wife's conduct of Miller's business while he was in prison: Testimony of Joan Miller to FBI in the investigation of National Beauty School, Dallas, Texas. She, on July 5, 1977, described herself as the owner of Miller Consultants and advised that she had been retained by the owner of National Beauty School to maintain the books and records relative to HEW funds received by the school.

OE officials, Region VI Dallas asked the Regional Attorney to research the propriety of OE, Dallas dealing with Miller, a convicted felon. The answer was that there was nothing OE could do about it if the schools chose Miller to represent them.

Mr. **Fountain**. While you are on that subject, has your branch had any contact or consultation or experience with the new Inspector General?

Mr. **Beaudet**. Mr Fountain, let me answer that.

I am with the HEW Audit Agency, which is one of the components of the Inspector General functions and, yes, we have worked very closely with the Office of Education.

Mr. **Fountain**. I was thinking of OE.

Mr. **Beaudet**. Yes, we work very closely.

Mr. **Naughton**. Have you had problems with some consultants who apparently kept the records in the trunk of their car or some place so they were not available when the auditors went in to audit?

Mr. **Beaudet**. I am not aware of instances where the records were kept in the trunk of a car. I am aware that in many cases the records were not at the institution; they are in the control of the consultants, and in some cases it took us awhile to get access to them. Where the consultant kept them, whether it was in his car or in his office, usually I would believe they would be in his office.

Mr. **Naughton**. Have you changed your regulations to require that the records of the financial aid programs be kept at the school?

Mr. **Beaudet**. No. The school has the responsibility in terms of the program and in many cases there are data processing companies that maintain the records at their site and the right of audit, the right of access is to those records which are on the site of the computer companies. And this in most cases has worked very well.

There is no requirement that the school itself maintain these records, but they do have the responsibility.

Mr. **Kornfeld**. We have already published proposed regulations dealing with institutional administrative and fiscal standards. We have already received comments and hopefully they will be out in final form very soon. In those particular regulations, we require specifically that the records of the schools must be at the institution and must be available for audit as part of the requirement to participate in these programs.

Mr. **Naughton**. Changing to another subject, on September 13, 1978, the Secretary issued a memorandum concerning supervision of staff who conducted independent audits and investigations.

Mr. Chairman, we might make that a part of the record.

[The memorandum follows:]

Secretary of Health, Education, and Welfare,
*Washington, D.C., September 13, 1978.*

Memorandum to Heads of POC's Assistant Secretaries, Inspector General, Heads of OS Staff Offices, and Principal Regional Officials.

Subject: Supervision of Staff who Conduct independent Audits and Investigations.

It is essential that units that conduct independent audits and investigations have undiluted objectivity and independence, and that they be under the direction of, and accountable to, their national Director at Headquarters.

It is for this reason the the HEW Audit Director in each Region reports directly to the Assistant Inspector General for Auditing at Headquarters; likewise, the Special Agent-in-Charge in each Region reports directly to the Assistant Inspector General for Investigations at Headquarters.

In the case of the POC's, these same principles of supervison should be applied. Thus, the Division of Compliance in the Bureau of Student Financial Assistance—and the Office of Program Integrity in the Health Care Financing Administration—should exercise nationwide direction and control of their field counterparts. This means that decisions on the opening of cases and the priority, methodology and disposition of investigations should be the responsibility of the Headquarters Director—and that final decisions on hiring, assignment, evalution and promotion of professional personnel should be the responsibility of the Headquarters Director. At the same time, the Regional Administrator concerned should provide administrative facilities and support to these staffs; should assist in assuring effective relationships among Regional staff units; and should be consulted by the Headquarters Director on personnel evaluations and promotions.

Any questions regarding these matters should be discussed with the Inspector General.

JOSEPH A. CALIFANO, Jr.

Mr. NAUGHTON. And the Secretary starts out by saying:

> It is essential that staff units that conduct independent audits and investigations have undiluted objectivity and independence, and that they be under the direction of, and accountable to, their national Director at Headquarters.

I have a further memorandum issued by Mr. Kornfeld concerning the procedures for the compliance unit dated September 20, 1978, which appears to me to be somewhat contradictory or at least not totally in agreement with the Secretary's memorandum. We might make this a part of the record, too.

Mr. FOUNTAIN. So ordered.

[The memorandum follows:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
*September 20, 1978.*

Memorandum to Regional Administrators I–X, ARA's for Compliance or Lead Investigators, I–X, Compliance Staff, Washington.

From: Leo L. Kornfeld, Deputy Commissioner, BSFA.

Subject: Compliance Directives.

Attached are the first set of Compliance Directives. (No. 78–1 through No. 78–5). This procedure of issuing Compliance Directives has been initiated to formally advise you of new or modified policy and procedures.

These directives are effective immediately.

I am aware of the objections to some of the concepts of management in Directive No. 78–1, but I expect each of you to make an honest attempt to make the system work. I will evaluate the system as we get some experience.

Regional investigators report first to their Assistant Regional Administrator for Compliance (ARA) or supervisory or lead investigator. The ARA or lead investigator in turn reports to the Regional Administrator (RA). This line supervision will remain in place. In conjunction with RA, the Director of Compliance, Washington will make recommendations on the hiring, firing, promotions, reassignments, etc. of investigators in the regional office. If possible, the final decisions should be made by mutual agreement between the RA and the Director. The Director will make the final decision if all means of reaching an agreement have been exhausted.

In an effort to show in form and substance that investigators have independence and are allowed to be completely objective, all reports will be handled as follows: Case reports, leads for developing cases, weekly activity reports and other information necessary for maintaining the Nationwide Early Warning Tracking System (NEWTS) will be sent to the Compliance Division, Washington, through the ARA at the same time that such information is supplied to the RA. The purpose is to make all raw data available for analysis through Washington which acts as a clearinghouse in directing a nationwide Compliance effort. Who sees the information first is not important, but an investigator must have the opportunity of sending in information which the Regional Administrator may disagree with or may wish to modify.

The Regional Administrator has the responsibility to send his comments along with the investigator's report or by separate memo to the Compliance Division, Washington.

The Compliance Division, Washington has the responsibility for initiating cases, setting priorities and monitoring active cases. This role does not diminish the investigator's role in being on the front line for Compliance nor his responsibilities in discovering problems and actively pursuing solutions.

In order to meet the mandate of Congress and ensure the effective operation of a nationwide compliance effort, the communication among the Compliance Division Washington, the Regional Investigator, the ARA and the RA is of the utmost importance. The greater centralization of information as anticipated under this procedure will result in mutual benefits for regional and Washington staff.

Mr. NAUGHTON. When you issued your September 20, 1978, memorandum, were you aware of the Secretary's memorandum and did you take steps to be sure that your memorandum totally complied with the Secretary's directive?

Mr. KORNFELD. Yes. We have talked this over with the Inspector General and it is his opinion and my opinion that we are complying with the Secretary's letter.

Mr. NAUGHTON. When did you talk this over with the Inspector General?

Mr. KORNFELD. A number of different times; even before the Secretary's letter, as a matter of fact.

Mr. NAUGHTON. Had you read and studied the September 13 memorandum of the Secretary at the time that you issued your September 20, 1978, memorandum?

Mr. KORNFELD. Yes, we did, and we feel that we are complying with the Secretary's requirements there. The chief compliance person, Judy Denny, has ultimate responsibility for compliance activity. She assigns the work; she is the only one that can open up a new case; she gets the investigation reports directly from the compliance persons in the regions; and she determines their promotions, their assignments, and has direct supervision over their activities, which is the intent of the Secretary's memorandum.

We also feel equally as strongly, and the IG does agree with us that when you have a lot of people out in the field, they need day-to-day administrative support. For many of the things they should be doing, they should be working in conjunction with the regional administrators who are there onsite, while Judy Denny is here in Washington.

We feel it is not appropriate to have a lot of people out in the field without at least some day-to-day supervision. It is very clear, however, that if a promotion comes about, for example, that Judy Denny, the chief compliance person, will work with the regional administrator and they will determine mutually if that person should get promoted.

However, if there is disagreement, Judy Denny's recommendation, as the chief compliance person, will prevail. That is in our opinion the intent of the Secretary's memorandum.

Mr. NAUGHTON. When did you get the Secretary's memorandum?

Mr. KORNFELD. I do not recall.

Mr. NAUGHTON. Can you give us a chronology as to when you received it for the record.

[Mr. Kornfeld subsequently supplied the following:]

## CHRONOLOGY

Prior to September 13, 1978. Leo L. Kornfeld assigned Judith A. Denny, the Director, Division of Compliance, the final authority on hiring, firing, promoting, and evaluating of regional investigators. No specific mention was made of a formal memorandum from the Secretary being prepared. (Decisions on case initiation and case priorities had previously been delegated to the Director with notice to the Regional Administrators.)

September 13, 1978, 7:30 a.m. During a meeting on another subject, Kornfeld advised Denny that he had discussed this matter with Morris and they both agreed. Kornfeld told Denny to advise the Regional Administrators (who were meeting in D.C.) of his decision.

September 13, 1978, 9:30 a.m. Denny met with the Regional Administrators and advised them of the new authority in hiring, firing investigators, etc.

September 13, 1978, 4:30 p.m. Kornfeld met with the Regional Administrators and confirmed Denny's announcements and emphasized that she would cooperate with them as much as possible.

September 13 thru 18, 1978. Denny drafted Compliance directives with input from Kornfeld.

September 18, 1978. Denny took memorandum dated September 29 (planned date of distribution) to Kornfeld for his signature. The memorandum explained that the attached Compliance directives were to be effective immediately. Kornfeld approved, signed and dated (September 18).

September 19, 1978. All copies of the approved Directives were in the mail and/or ready for distribution by C.O.B. September 19.

September 19, 1978. Van Phillips, Chief Investigator, Atlanta, called Denny and advised her of the content of the Secretary's September 13 memorandum. Ms. Denny called Sherry Gardner to request a copy and picked up a copy after working hours.

September 20, 1978. Denny met with Kornfeld and told him of the Secretary's memorandum. Kornfeld told Denny that the recently published directives carried out the spirit of the Secretary's memorandum.

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Following is a copy of the revised Compliance Directive issued by Leo Kornfeld, Deputy Commissioner for Student Financial Assistance:

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
*November 7, 1978.*

Memorandum to: Regional Administrators I-X, Assistant Regional Administrators for Compliance or Lead Investigators I-X, Compliance Staff, Washington, Regional Personnel Offices.

From: Leo L. Kornfeld, Deputy Commissioner, Bureau of Student Financial Assistance.

Subject: Compliance Directives.

Compliance Directive #1, issued on September 20, 1978, has been revised to reflect more closely the language and spirit of Secretary Califano's September 13 memorandum regarding the Compliance field investigators' relationship to headquarters.

The directive is effective immediately.

I would like to emphasize our continual need for communication to effect our Compliance goals. With the proper effort on the part of each of you, I believe our increased centralization will be a good working tool to accomplish that communication.

Attached is a copy of the Secretary's directive of September 13, 1978, regarding the supervision of staff who conduct independent audits and investigations. I agree whole-heartedly with the policy set forth in this directive and ask that you comply fully with it. It is essential that our Compliance units have undiluted objectivity and independence and that they be accountable to and under the direction of Judy Denny, Director, Division of Compliance.

I would like to reiterate several points made by the Secretary:

That decisions regarding the opening of cases and the priority, methodology, and disposition of investigations should be the responsibility of Judy Denny at Headquarters.

That final decisions on the hiring, assignment, evaluation, and promotion of professional personnel should also be the responsibility of the Headquarters Director of Compliance.

> The Regional Administrator should provide administrative facilities and support to Compliance staffs; should assist in assuring effective relationships among regional staff units; and should be consulted by the Headquarters Director on personnel evaluations and promotions.
>
> I want to stress that, in order to ensure the most efficient operation of our nationwide Compliance effort, an effective communications system is of the utmost importance among the Compliance Division in Washington, the regional investigators, the Assistant Regional Administrators, and the Regional Administrators.
>
> In an effort to ensure that investigators have the necessary independence and objectivity in handling audits and investigations, all reports will be handled as follows: case reports, leads for developing cases, weekly activity reports, and any other information necessary for maintaining the Nationwide Early Warning Tracking System (NEWTS) will be sent to the Compliance Division, Washington, through the supervisory Compliance investigator, with copies to the Regional Administrator. Headquarters must serve as the clearinghouse in directing the nationwide Compliance effort. The Regional Administrator has the responsibility to send his or her comments to the Compliance Division in Washington.

Mr. NAUGHTON. Now, what this states is that in conjunction with the regional administrator—let me read the first paragraph:

> Regional investigators report first to their Assistant Regional Administrator for compliance (ARA) or supervisory or lead investigator. The ARA or lead investigator in turn reports to the Regional Administrator (RA). This line supervision will remain in place. In conjunction with the RA, the Director of Compliance, Washington will make recommendations on the hiring, firing, promotions, reassignments, etc., of investigators in the regional office. If possible, the final decisions should be made by mutual agreement between the RA and the Director. The director will make the final decision if all means of reaching an agreement have been exhausted.

This is a program person, is it not, the regional administrator?

Mr. KORNFELD. Regional administrator is the chief person in the region, right.

Mr. NAUGHTON. The person who is responsible for program operations in the region?

Mr. KORNFELD. Well, responsible for a number of activities, program reviews, collection, training, dissemination, that kind of activity.

Mr. NAUGHTON. So the persons responsible for investigating irregularities are subordinate to the person responsible for running the programs?

Mr. KORNFELD. Only for administrative support, which I believe that memorandum does go on to state. These people are living in that office. For example, they need logistic support, they need office space, telephone support. They cannot get this on their own; they have to get it through the regional administrator.

It is important that the administrative support be provided by the regional administrator.

Furthermore, the Compliance Division in our opinion has to be part of the Bureau. It is not an independent operation that has no relationship to the other parts of the Bureau. It is very important that we work closely together with the compliance people. That is why we felt we had to get the regional administrator at least to know what is going on. He has no veto power, he cannot determine which cases these people work on, and they do not have to submit information to him. They submit it directly to Judy and give copies to the regional administrator.

So that person who is out in the region knows what is going on, which we think is good administrative practice.

Mr. **Naughton**. The second sentence of your first paragraph says: "The ARA or lead investigator in turn reports to the Regional Administrator (RA)."

Mr. **Kornfeld**. But it goes on. I do not know specifically which memorandum you have there, but the intent of that memorandum, at least the intent of the current instructions out to the field, make it very clear that the chief compliance person has ultimate responsiblity for those persons as far as all activities, how they operate, the training of these people, the priority, the caseload and everything which is what I think the intent of the Secretary's memorandum was.

Mr. **Naughton**. Your memorandum also goes on to indicate that the Director of Compliance will make recommendations in the hiring, firing, promotions, reassignments of investigators in the regional office in conjunction with the regional administrator.

Mr. **Kornfeld**. Right.

Mr. **Naughton**. If possible, the final decision should be made by mutual agreement between the regional administrator and the director?

Mr. **Kornfeld**. That is correct. The memorandum goes on to state, as I recall, that the ultimate decision is by the Director of Compliance, if there is a disagreement. We are trying to work as one bureau and trying to cooperate.

If, for example, the regional administrator and a directive from compliance disagree, the Director of Compliance's opinion prevails?

Mr. **Naughton**. That is right, but every investigator going out looking into irregularities in the programs is well aware that under your memorandum the regional administrator—who may be responsible for fouling up a particular program—is the man or woman, as the case may be, who is going to be a part of the process by which the investigator gets hired or fired or promoted.

Now, how does that comport with the requirement in the Secretary's memorandum that it is essential that staff units that conduct independent audits and investigations have undiluted objectivity and independence?

How do you have undiluted objectivity and independence in reporting on programs run by a man or woman who is going to participate in the decision as to whether you are going to be fired, hired or promoted?

Mr. **Kornfeld**. I disagree with the statement you made.

Those persons in the compliance field have complete authority to do what they want. They have to work with the regional administrator. In my opinion, it is poor administrative practice to have people out there unsupervised. You cannot supervise 70 people from Washington, D.C. It is impractical and unreal. Someone has to be there to make sure those people work and get administrative support.

The memo is very clear. It is not as you state.

The compliance people in the field clearly understand that Judy Denny is the person they have to satisfy and cope with, much more so than the regional administrator who they look to for administrative support.

I think that is a very clear administrative arrangement.

Mr. **Naughton**. I think it is quite clear we are back to the old situation that prevailed years ago as far as HEW is concerned, that the program personnel are placed in a position where they are in effect allowed or directed and instructed to participate in the process of hiring, firing, and promoting the so-called independent investigators who are looking into their programs.

I just do not see how that complies with the Secretary's statement that it is essential that staff units that conduct independent audits and investigations have undiluted objectivity and independence, and that they be under the direction of and accountable to their national director at headquarters. If they are being supervised in some fashion or other by the program administrator, that dilutes the supervision of the director of the national office.

Mr. **Beaudet**. Mr. Naughton, if I might add, Mr. Morris has reviewed Mr. Kornfeld's memorandum very carefully and so has the Audit Agency staff. We are both of the opinion that Mr. Kornfeld's implementation of the Secretary's directive is such that we can go along with it. However, it is with the understanding that we will monitor this closely to make sure that the concerns expressed by your committee and others are adequately dealt with and that there be no problems with this type of arrangement. But as it stands, Mr. Morris can go along with Mr. Kornfeld's statement.

Mr. **Naughton**. Has this matter been called to the attention of the Secretary? Does the Secretary feel that this is consistent with what he intends to happen?

Mr. **Beaudet**. I do not know whether it has been called to the attention of the Secretary, but Mr. Morris played a large role in the drawing of the Secretary's directive, and I would suggest that if Mr. Morris feels it goes along with the intent of that memorandum——

Mr. **Naughton**. I have a high regard for Mr. Morris, but I can also read English.

Could you get for us an opinion from the Secretary as to whether or not this is consistent with what he intended?

Mr. **Beaudet**. If you think that is necessary, yes, sir, we will.

Mr. **Naughton**. Thank you.

[Note: See statement supplied by Mr. Kornfeld on p. 123.]

Mr. **Naughton**. Going to another subject, what is the approximate extent of participation by correspondence schools in the BEOG program at the present time?

Mr. **Kornfeld**. I do not know. We will have to furnish that for the record.

Mr. **Naughton**. Is Ms. Sedicum here?

Mr. **Kornfeld**. Yes.

Mr. **Naughton**. Perhaps she could respond to that.

Ms. **Sedicum**. No.

Mr. **Naughton**. Is it extensive?

Mr. **Kornfeld**. No, not at all. The BEOG program—by the way, I used to have these numbers and I can search them out if it is important—the BEOG program is very heavily oriented to the public institutions. Well, I would have to guess now, but most of the BEOG money goes to public type institutions.

[The following statement was subsequently provided:]

There are seven correspondence schools participating in the Basic Educational Opportunity Grant Program in the 1978-79 academic year.

Mr. **Naughton**. What was the due date that the Secretary asked for submission of proposed revisions to the BEOG application? That memorandum was read into our hearing and I have forgotten it.

Mr. **Kornfeld**. The date I think the Secretary asked us to submit was September 30. We did submit it on time. We did then get a request from the executive secretary to change the format of the way we submitted it because there were improvements in the format, and that is being done or has been done and will be done in the next day or so.

Mr. **Naughton**. Are you now able to identify the default rate at particular schools?

Mr. **Kornfeld**. In the guaranteed student loan program?

Mr. **Naughton**. Yes.

Mr. **Kornfeld**. We are not able to do that at this point.

Mr. **Naughton**. Why can't you do that?

Mr. **Kornfeld**. Well, it is the nature of the way that computer system was designed. Again, it is not a matter of cannot. There are a lot of data in those computer files. If one wants to go ahead and spend a lot of time and money, you can do lots of these things. It is not something that is routinely done. At this point it is not something that we feel is cost-effective to try to accomplish.

Mr. **Naughton**. You have no plans then to try to get this information?

Mr. **Kornfeld**. Well, we are working on it. It is something but it is not a priority item.

Mr. **Naughton**. How many default claims have you had since the beginning of the program?

Mr. **Kornfeld**. 90,000. Since the beginning of the program?

Mr. **Naughton**. Yes.

Mr. **Kornfeld**. We had 90,000 this year. I do not know what the history of the program would be, but I just know this year we had 90,000.

We are now putting more people in repayment for the first time in the history of this program than we are getting claims. As a result of this, as you may know, we started off this year with 376,000 defaulters; because of increased claims it went up to over 400,000. We are now down to about 350,000 or 360,000, which is the first time that we have now got to the other side of the hill and we are optimistic that we will be able to continue that.

Mr. **Naughton**. I have a note here that at some period in the not too distant past out of some 408,000 default claims paid, 35 schools apparently accounted for almost 150,000. Does that sound accurate to you?

Mr. **Kornfeld**. It does not, not at all.

Mr. **Naughton**. What would your estimate be on that?

Mr. **Kornfeld**. This might have been—I am sorry, if you are talking about sometime in the early years of the program, when correspondence schools were lenders, that statistic is somewhat accurate.

Mr. **Naughton**. Yes.

Mr. **Kornfeld**. But as you know, correspondence schools can no longer be lenders in a program. Therefore, that is certainly not the situation today.

Mr. **Naughton**. Now I have some other data which is as of March of this year, I believe, which indicates that in terms of default claims paid that the San Francisco region apparently accounted for about 25 percent of all of the claims paid up to that time. Is that accurate? If so, what reason would there be for such concentration?

Mr. **Kornfeld**. That is approximately correct. While I can't give you the exact number, about 25 percent of the total number of defaulters are in the San Francisco region. One reason is that California does not have a State guaranteed agency program. It is also a large State with many schools. Therefore, a significant percentage of the Federal loan program activity has been in that State, 25 percent or thereabouts.

Mr. **Naughton**. Now, are these statistics for the FISL program or only the federally insured program?

Mr. **Kornfeld**. Only the federally insured program. In other words, and I can give you the exact number, as of September 23, in the San Francisco region, there are 102,000 student defaulters out of the 354,000 in the total program.

Mr. **Naughton**. An audit of 108 lenders several years ago concluded that 96 of these 108 had overstated their interest entitlement by $1.2 billion. Apparently at that time it was a matter of them simply sending in an invoice and whatever amount they claimed was sent back out. Has that situation changed?

Are you now able to verify the accuracy of a claim for interest before you pay it?

Mr. **Kornfeld**. This whole subject, as you know, came up again in a GAO audit of a few weeks ago. It is a subject that the GAO has been coming at us with for maybe 7 years. Each year we have responded to the GAO and said what we are going to do. Each year we have done nothing. We are determined that this year we are going to get on top of that problem.

We have put together a task force of key people within the bureau who are just going to concentrate on solving that problem. The problem has multiple facets; it is complicated. It includes not only the fact that the accounting books are not reconciled with the books of the Office of Education Finance Division, it is the interest-billing problem.

We have made some progress in that whole area but there is a lot to be done and we are determined this is the last year we are going to get such an audit from the GAO.

Mr. **Naughton**. Who is the head of that task force?

Mr. **Kornfeld**. Richard Dix, who comes from the Guaranteed Student Loan Fund Section.

Mr. **Naughton**. You might submit to the subcommittee a listing of the members and give us the deadline dates and so forth.

Mr. **Kornfeld**. Be happy to do so.

[The information submitted appears in appendix 6.]

Mr. **Naughton**. Mr. Beaudet, can you tell us what progress was made in recouping, if it was made, the alleged $1.2 million in overstated interest entitlements?

Mr. **Beaudet**. Are you referring to the amount shown in the report of 108 lending institutions?

Mr. **Naughton**. Yes.

Mr. **Beaudet**. I do not have those figures available at this moment.

Mr. **Naughton**. Can you provide that?

Mr. **Beaudet**. Yes, we can furnish that for the record.

[Mr. Beaudet subsequently provided the following statement:]

> An audit report "Review of Lender Institutions Participating in the Guaranteed Student Loan Program" was issued by the HEW Audit Agency on September 7, 1973. The review covered 108 lending institutions and contained a recommendation to recover $1.2 million in overbillings by the lenders.
>
> All reports have been closed by the Office of Education and about $850,000 has been recovered.

Mr. **Fountain**. Mr. Duncan?

Mr. **Duncan**. I have no questions.

I would request on behalf of the Republican members that the hearing record be left open to allow us to submit additional questions in writing which we expect to have ready in the next 10 working days or so.

Thank you.

Mr. **Naughton**. One concluding point.

An article in the Los Angeles Times for September 27, 1978, reporting on a speech by the Secretary which covers a number of subjects, including the student financial assistance programs, contains this statement:

> Califano also said that, for the first time in the history of the student aid program, his agency is barring three educational institutions, two of them in California, from participating in the program. The California schools are the Corona College of Cosmetology in Corona and the National Institute of Health Services in Long Beach.

Is it true that these are the first two schools barred from participation?

Mr. **Kornfeld**. Terminated in all programs. We did not have the authority until the Education Amendments of 1976 to do this. We now have the authority and regulations in place which permit us to terminate schools from participating in all programs.

We had the authority before the 1976 Amendments to bar schools in the guaranteed student loan program. These schools are barred; they cannot participate in any program, BEOG, Campus-Based, any program whatsoever.

Mr. **Naughton**. Approximately how many have been barred since the beginning of the guaranteed student loan program under that program?

Mr. **Kornfeld**. I do not know the number, but we can furnish it for the record.

[Mr. Kornfield subsequently supplied the following statement:]

> Eight institutions have been terminated in the Guaranteed Student Loan Program since the Limit, Suspend, and Terminate authority has been available for that program.

Mr. **Naughton**. Do you have a number of additional LST actions or barring actions in process?

Mr. **Kornfeld**. We have quite a number, yes.

Mr. **Naughton**. About how many, would you say?

Mr. **Hastings**. We have about six coming up within the next 2 months.

Mr. **Naughton**. Are there others at an earlier stage in the pipeline?

Mr. **Kornfeld**. Yes. We have done some 400 program reviews, which of course is the first step in determining what is happening with the institutions. As we receive these program reviews, which come to Mr. Hastings, who is the head of the Certification and Program Review Division, we determine where there are actions we need to take. We intend to take these steps and we are moving expeditiously. If it is in the best interest of the Government to suspend institutions or limit them, or terminate them, we will do so.

For example, about a month ago we invoked emergency procedures in 34 schools and did not permit them to draw down any money until such time as we could reconcile what was necessary, we felt. Of that 34, I think, 6 resulted in limitations actions.

Mr. **Fountain**. Mr. Naughton, I suggest that you do for the subcommittee what has been requested for the minority; if you have some additional questions in these areas, that you submit them.

Mr. **Naughton**. Fine.

Mr. **Fountain**. If you gentlemen will respond, we would appreciate it. We regret there are limitations of time; so much legislation is being disposed of on the floor, and rather rapidly and dangerously. I might say, because of the rapidity with which we are going to be acting in the next few days, we may pass some legislation that creates more problems for you. But we appreciate your coming here, and thank you for coming.

Mr. **Kornfeld**. Thank you, Mr. Chairman.

Mr. **Fountain**. The subcommittee is adjourned.

[Whereupon, at 11:42 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# APPENDIXES

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## APPENDIX 1.—CORRESPONDENCE BETWEEN L. H. FOUNTAIN, CHAIRMAN, INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES SUBCOMMITTEE, AND JOSEPH A. CALIFANO, JR., SECRETARY, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, CONCERNING ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS

House of Representatives
INTERGOVERNMENTAL RELATIONS AND
HUMAN RESOURCES SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-372
WASHINGTON, D.C. 20515

May 31, 1978

Honorable Joseph A. Califano, Jr.
Secretary
Department of Health, Education, and Welfare
Washington, D.C. 20201

Dear Mr. Secretary:

As you probably know, the subcommittee has been interested for some time in HEW's administration of student financial assistance programs. It is my expectation that we will be holding further hearings concerning this subject in the very near future.

In order to assist us in preparing for the hearings, it would be appreciated if you will arrange for the information described in the attached sheets to be furnished to the subcommittee. If there is any question concerning the information desired or concern about possible difficulty in responding to particular questions, it would be appreciated if you will have appropriate members of your staff contact Mr. Naughton, subcommittee counsel, as soon as possible.

It would be appreciated if you will arrange for the requested information to be provided by June 19. If it would be difficult to provide all the requested information by that date, it would be appreciated if you will have the appropriate members of your staff contact Mr. Naughton as soon as possible.

Sincerely,

L. H. Fountain
Chairman

enclosures
copies to: Honorable Thomas D. Morris, Inspector General
Honorable Ernest G. Boyer, U. S. Commissioner of Education
Leo Kornfeld, Deputy Commissioner, Student Financial Asstance

## I. Background

1. Please provide a brief description of each significant student financial assistance program administered or financed by the Office of Education.

2. Please identify each significant student assistance program of which you are aware which is administered or financed by government agencies other than the Office of Education, giving any readily available information concerning the volume of expenditures involved.

3. Please provide statistical data concerning each program described in response to I-1, including, but not necessarily limited to:

   (a) funds available, program expenditures and administrative costs;

   (b) number of institutions and students participating, including any readily available information showing the extent to which schools and individuals are participating in two or more programs;

   (c) information concerning program results, such as cumulative loans made, matured, repaid and defaulted, default rates, etc.

## II. Organization and Resources

1. Please identify each governmental unit having significant responsibility for administering or monitoring programs described in response to I-1 or any HEW programs identified in response to I-2 and briefly describe the responsibilities assigned to each such unit and the resources devoted to such responsibilities.

2. Please provide an organizational chart for the Bureau of Student Financial Assistance describing the responsibilities and resources of each major component, and identifying key personnel. Please identify particularly units and individuals having responsibility for coordinating activities potentially involving more than one program and briefly describe such responsibilities.

## III. Audit Report Recommendations

Over the past few years, a number of reports have been issued (or prepared) by the General Accounting Office, the HEW Audit Agency, the Student Financial Assistance Group, and by contractors concerning various student financial assistance programs.

Please provide any readily available information concerning the extent to which significant recommendations in these reports have NOT been carried out.

## IV. Significant Improvements

Please provide a brief description of each significant improvement made (or scheduled to be made) in each OE student financial assistance program since January 1977, giving the status of each such improvement and the date when it was or is expected to be fully implemented. Please describe any additional significant improvements which are believed to be needed but which have not yet been scheduled.

## V. Legislative Changes

Please describe any significant legislative changes relating to program administration which have been made since January 1977 or are believed to be needed but have not been made. For those changes which have not been made, please indicate whether or not HEW has recommended such changes to the Congress.

## VI. Computer Systems

Please identify any significant problems, deficiencies or inadequacies in the computer system or systems being used in the administration of OE student financial assistance programs and describe any significant corrective action or improvements presently scheduled or planned.

## VII. Data Collection and Analysis

Please describe briefly any significant arrangements currently in effect to collect and analyze data for use in preventing and detecting fraud and program abuse in OE student financial assistance programs, indicating how and by whom each significant category of information is collected and analyzed. Please indicate specifically the extent to which information is or is not available concerning:

(a) Default, delinquency and drop-out rates by schools, spelling out any significant differences in information available for school lenders and other schools;

(b) placement rates in appropriate jobs for students completing courses at vocational schools;

(c) the extent to which student financial assistance programs have been primarily responsible for the establishment or rapid expansion of proprietary schools;

(d) the number of schools which, directly or indirectly, derive most of their revenues from government programs;

(e) the identity of schools receiving unusually large amounts of funds from government programs.

## VIII. Control of Monitoring Activities

Please describe any procedures used to control and track monitoring activities and related information by school, such as:

1. extent and nature of student and other complaints;
2. audits scheduled and completed;
3. program and compliance reviews;
4. investigations;
5. monitoring activities conducted by non-HEW entities, either governmental or non-governmental.

Please give any readily available statistics concerning monitoring activities during calendar 1977 (or other appropriate period or periods), and how such activities compare with the total number of schools participating in the program or programs involved.

## IX. Control of Corrective Actions

Please describe any procedures used to initiate necessary corrective action and track its progress, including particularly:

1. Action to stop or reduce disbursement of funds under student financial assistance programs (or other programs, where appropriate);
2. action to recover funds already disbursed (a) through administrative action (because of audit exceptions or for other reasons), or (b) through court action.

   (Please indicate specifically whether or not statistics are maintained concerning amounts which cannot be collected because of bankruptcy or insolvency or for other reasons not involving the merits of the government's claim.)
3. changes in procedures and regulations;
4. actions to suspend, limit or terminate participating institutions;
5. referrals for criminal prosecution and the prosecutions and convictions resulting therefrom.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

JUL 25 1978

The Honorable L. H. Fountain
Chairman, Intergovernmental Relations
and Human Resources Subcommittee
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am enclosing herewith a response to the questions raised in your letter of May 31, 1978. I understand that preliminary draft responses to most of the questions, as well as other draft information that your staff requested, were previously furnished to James Naughton, Subcommittee Counsel, by HEW's Office of Inspector General and the Office of Education.

I look forward to testifying before the Subcommittee on Thursday.

Sincerely,

Hale Champion
for Joseph A. Califano, Jr.

Enclosure

## RESPONSE TO LETTER OF MAY 31, 1978
## FROM L. H. FOUNTAIN,
## CHAIRMAN OF THE HOUSE INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
## TO HEW SECRETARY JOSEPH A. CALIFANO, JR.

### Request I - Background

Request I-1: Please provide a brief description of each significant student financial assistance program administered or financed by the Office of Education.

Response: Tab 1 indicates the type of aid, student eligibility, award levels in 1977-78, application process, award process, beneficiaries, and institutions eligible or participating for (1) the Basic Educational Opportunity Grant (BEOG), (2) Supplemental Educational Opportunity Grant (SEOG), (3) College Work-Study (CW-S), (4) National Direct Student Loan (NDSL), (5) State Student Incentive Grant (SSIG), and (6) Guaranteed Student Loan (GSL). Tab 1A contains a brief description of the Health Education Assistance Loans Program (HEAL).

Request I-2: Please identify each significant student assistance program of which you are aware which is administered or financed by government agencies other than the Office of Education, giving any readily available information concerning the volume of expenditures involved.

Response:

Veterans Administration (VA):

-- Chapter 31, Vocational Rehabilitation Benefits, provides disabled veterans with a subsistance allowance and costs of tuition, books, and fees for vocational training or education. Estimated FY 78 funding is $111,310.

-- Chapter 34, the GI Bill, offers grants and loans for training or education to veterans who served prior to 1/1/77. Estimated FY 78 funding is $2,814,169.

-- Chapter 35, Survivors' and Dependents' Education, provides grants and loans for spouses or children of 1) veterans whose death or total disabilities were service connected or 2) persons missing in action or prisoners of war. Estimated FY 78 funding is $228,364.

Department of Labor: CETA contracts to universities in support of students.

- -- The Doctoral Dissertation Program offers grants to institutions to support graduate students who have completed all requirements except the dissertation in areas of study which relate to employment and training. FY 78 budget is approximately $700,000. Maximum cost per participant is $10,000 for a period not to exceed one year.

- -- The Institutional Grant Program provides $130,000 annually to one school in each region and to 4 minority schools for developing and offering curricula to train people to run the CETA delivery system.

- -- A Contract with the Council for Opportunities in Graduate Management Education aids minority MBA candidates at ten member business schools. This program pays for 70% of the students' first year in graduate school. FY 78 funding is $100,000 for 22 participants. (No funds presently budgeted for FY 79.)

- -- The College Assistance Migrant Program (CAMP) supports 597 participants at four institutions--Adams State, Colorado; San Diego State, Caifornia; Pan American University, Texas; and St Edwards University, Texas. FY 78 grants total $1,110,000.

- -- The High School Equivalency Program grants approximately $4.75 million to 14 universities that instruct 2,100 students working toward their Graduate Equivalency Degree. These funds provide for all costs and $10 a week pocket money for the participants.

- -- The National Indian Paralegal Training Project pays two universities to train Native American paralegals. Antioch Law School and the University of New Mexico receive $2.6 million to cover tuition, housing, and a training allowance of approximately $110 per week for each participant.

- -- The Job Corps Junior College Program funds junior colleges for tuition, room, board, and medical/dental services for job corps enrollees at $5,000 a year for two years. FY 78 budget is $7.5 million.

Public Health Service (PHS): Bureau of Health Manpower programs follow. For other PHS grants, see Tab 1B.

-- A scholarship program aids first year students with exceptional financial need. Academic year 1978/79 estimates are $4,950,000 to 450 students.

-- The Nursing Student Loan Program assists students who are also eligible for all BSFA assistance except NDSL. Estimate for academic year 1977/78 is $22,304,179 for 27,880 students.

-- Health Professions Loan Assistance aids students who are also eligible for NDSL and GSL funds. Estimate for academic year 1977/78 is $19,760,000 for 16,140 students.

-- National Health Service Corps Scholarships allow students to earn a year's full scholarship for each year they serve in the corps. Estimated FY 78 funding is $60 million.

-- Nursing Scholarships, based on a needs analysis, aid graduate and undergraduate students. Estimated FY 78 funding is $9 million.

-- Nursing Traineeships award full scholarships to graduate students for teaching, research, and administration. Estimated FY 78 funding is $13 million.

-- Nursing Fellowships provide grants to graduate students for research. Estimated FY 78 funding is $1 million.

-- Public Health Traineeships provide full scholarships to public health graduate students. Estimated FY 78 funding is $7 million.

-- Health Administration Traineeships provide scholarships to graduate students in health administration. Estimated FY 78 funding is $1.5 million.

-- Allied Research Traineeships provide full scholarships to graduate students in allied research. Estimated FY 78 funding is $3 million.

Social Security Administration -- Title II: Title II benefits are targeted at dependents, not students. However, because dependents receive these benefits until age 18, or age 22 if they are full-time students, many recipients of Title II assistance are students. The program will pay about $1.9 billion in FY '78 to approximately 975,000 students, 78% of whom are attending colleges, universities or vocational institutions.

Request I-3: Please provide statistical data concerning each program described in response to I-1, including, but not necessarily limited to:

Request I-3(a): Funds available, program expenditures and administrative costs;

Response: FY '78 data follows:

| | Appropriations |
|---|---|
| BEOG | $ 2.16 billion |
| GSL | 519.8 million |
| NDSL | 310.5 million |
| SEOG | 270.1 million |
| CW-S | 435.0 million |
| SSIG | 63.75 thousand |

Administrative funding is not available by program. The Bureau of Student Financial Assistance (BSFA) administrative funds total $151,156,100 for FY 1978. Tab 2 shows detailed status of BSFA expenditures for FY 1978 as of June 9, 1978.

Request I-3(b): Number of institutions and students participating, including any readily available information showing the extent to which schools and individuals are participating in two or more programs.

Response: FY 78 data follows:

| | No. of Institutions Participating | No. of Recipients | Average Award |
|---|---|---|---|
| BEOG | 5,3[illegible]0 | 2,398,000 | $ 895 |
| GSL | (Student loans directly from banks) | 984,000 | 1,675 |
| NDSL | 3,400 | 853,000 | 710 |
| SEOG | 3,590 | 464,000 | 560 |
| CW-S | 3,250 | 796,000 | 600 |
| SSIG | 56 (states) | 255,000 | 250 |

Many of the institutions participating in BSFA programs are involved in two or more programs. As this list is voluminous, we are submitting it to your counsel James Naughton under separate cover.

Information on the extent to which individuals are participating in two or more programs is not available.

Request I-3(c): Information concerning program results, such as cumulative loans made, matured, repaid and defaulted, default rates, etc.

Response:

- NDSL: Tab 3 shows the basic program statistics for NDSL and lists the number of students in default, principal outstanding, matured principal and default rate by type of institutions.
- GSL: Tab 4 shows GSL disbursements cumulative from 1965 through FY 1977, presents various program statistics, and shows claim status from FY 1975 through FY 1978.

## REQUEST II: ORGANIZATION AND RESOURCES

Request II-1: Please identify each governmental unit having significant responsibility for administering or monitoring programs described in response to I-I (OE programs) or any HEW programs identified in response to I-2 (non-OE programs) and briefly describe the responsibilities assigned to each such unit and the resources devoted to such responsibilities.

Response:

### Office of Education (OE)

The Bureau of Student Financial Assistance administers and monitors OE student assistance programs. The authorized level of BSFA employees is 1057. Funding information is found in response to request I-3(a).

### Inspector General (IG)

The IG is responsible for detecting and preventing fraud, abuse, and error in the administration of all HEW programs. The FY 78 estimates of the HEW Audit Agency's resources are 993 employees (including 93 reimbursable) and a $26.6 million operating budget. Student financial assistance related work accounts for about 7% of this total. The FY 78 estimates of resources for the Office of Investigation are 114 employees and a $2.7 million budget. Student-financial assistance-related work accounts for approximately 15% of the efforts of the professional field staff available for criminal investigations.

### Social Security Administration

The Bureau of Retirement and Survivors Insurance in the Office of Program Operations of the Social Security Administration administers and monitors Title II benefits. Estimated FY 78 resources of the Bureau are 14,000 employees and a $289 million administrative budget. FY 77 administrative costs for student benefits were about $34 million.

### Public Health Service

The Division of Student Assistance in the Bureau of Health Manpower of the Health Resources Administration administers and monitors 10 student assistance programs. FY 78 estimated resources are 144 staff positions and $3.8 million in budget. Their ten programs are: Exceptional Need, Nursing Loans, Nursing Scholarships, Nursing Fellowships, Nursing Traineeships, Health Professions Assistance, Public Health Traineeships, Health Administration Traineeships, and Allied Research Traineeships. See Tab 1B for information on additional programs.

Request II-2: Please provide an organizational chart for the Bureau of Student Financial Assistance describing the responsibilities and resources of each major component, and identifying key personnel. Please identify particular units and individuals having responsibility for coordinating activities potentially involving more than one program and briefly describe such responsibilities.

Response:

BSFA is composed of seven divisions. They are:

1. The Division of Policy and Program Development is responsible for planning efforts and legislative initiatives, and directing the development of funding requirements and program policy.

2. The Division of Certification and Program Review develops and disseminates standards for institutional certification and operating procedures for internal program reviews. This division resolves audit exceptions and initiates the use of limit, suspend, and terminate actions. It also conducts validation of student-reported data and provides direction to the regional offices on certification and program review activities.

3. The Division of Program Operations processes institutional fund requests, issues award documents and authorizations to institutions, reconciles fund expenditures and, under the GSLP, pays interest billings and special allowances to lenders. This division also pays claims, collects insurance premiums, pays death and disability claims and teacher cancellations, and provides regional office direction on program operation activities.

4. The Division of Quality Assurance prepares reports for management and planning purposes and assesses the impact of Bureau programs.

5. The Division of Systems Design and Development creates automated systems for BSFA programs, directs systems implementation and monitors systems contracts.

6. The Division of Training and Dissemination determines and provides training for institutional financial aid staffs and Federal, regional and central office staffs.

7. The Division of Compliance develops standards and procedures for, and conducts compliance and investigative reviews with field staff. It is the Bureau's link with HEW's Inspector General and the Department of Justice. It also provides direction to the regional offices on compliance and investigative matters.

Under the supervision of headquarters, the ten regional offices are responsible for all field activities.

Tab 5 contains the BSFA organizational chart, which indicates the head of each office.

In answer to your request for information on units and individuals having responsibility for more than one program, the Bureau is organized on a functional rather than a programmatic basis. Therefore, the functions of the Division Directors and the subordinate managers cross program lines.

Request III: Audit Report Recommendations

Over the past few years, a number of reports have been issued (or prepared) by the General Accounting Office, the HEW Audit Agency, the Student Financial Assistance Group, and by contractors concerning various student financial assistance programs.

Please provide any readily available information concerning the extent to which significant recommendations in these reports have NOT been carried out.

Response:

A. Guaranteed Student Loan Program

Recommendation (From GAO Report: "Examination of Financial Operations for Fiscal Year 1975 Shows Need for Improvements in the Guaranteed Student Loan Program" - 2/10/77)

- The Secretary should require OE to utilize its full statutory authority in charging insurance premiums. (OE currently computes and collects premiums for five years in advance.)

Status

- OE has considered and rejected this recommendation on a number of occasions. It believes that the administrative and collection costs that would be incurred in recalculating and collecting the premium on an annual basis would exceed any additional revenues that may be collected.

Recommendation (From GAO Report: "Collection Efforts Not Keeping Pace with Growing Number of Defaulted Student Loans" - 8/11/77)

- The Secretary of HEW should direct the Commissioner of Education to effectively process defaulted student loans to the point of collection, referral for legal action, or termination, including: requiring the collections contractor to document unsuccessful collection efforts and instructing collectors to request debtor-prepared financial statements.

Status

- OE is moving vigorously in this regard. The suggestion that collections contractors document unsuccessful collection efforts is contained in two RFP collections contracts, which will be entered into on a pilot basis for two regions. (Bids close the first week of August and the contract is expected to be let by October.) OE only obtains a debtor's financial statements (either prepared by the debtor or a credit agency) if it is going to litigate against the debtor.

Recommendation (From GAO Report: "Examination of Financial Operations for Fiscal Year 1975 Shows Need for Improvements in the Guaranteed Student Loan Program" -2/10/77)

- Controls over interest and special allowance payments have been inadequate. (Lenders were overpaid by about $41.6 million in FY 1975).

Status

- BSFA recognizes the importance of this matter. A BSFA Task Force on Financial and Accounting Control was established in June 1978 to develop proposals for a verification system that would resolve these problems, and at the same time, avoid putting unreasonable burdens on lenders.

Recommendation (From GAO Report: same as above, and GAO Audit "Examination of Financial Statements of Student Loan Insurance Fund, Fiscal Year 1974" - 2/12/75)

- OE should establish the necessary controls between the OE Finance Division and the Office of Guaranteed Student Loans (now, the GSL Branch) to improve the quality of data presented on the financial statements. Such control should require that (a) cash transactions be recorded in the year in which they apply; (b) general ledger control accounts be periodically reconciled with subsidiary records, (c) a procedure be established to properly account for collection of unbilled insurance premiums; (d) loss rates be established based on actual program experience; (e) all loss rates be annually evaluated and necessary adjustments made, and (f) computations be verified and properly supported.

Status

- OE recognizes the importance of this recommendation, and it is under active consideration by the BSFA Task Force on Accounting and Financial Control. An outside financial management specialist has been retained to assist.

Recommendations (From GAO Report: "Letter Report on GSLP Financial Statement" - 9/22/77)

- That BSFA develop detailed subsidiary records in support of the closings in process, insurance premiums receivable, and accrued interest receivable account balances.
- That BSFA develop an allowance for loss rates based on actual program experience without further delay, so that the allowances may be more realistically stated.
- That BSFA base the estimated future loss rates on actual program experience and update the rates each year to reflect the most recent program experience. The method of computing the rates and calculating the estimated liability for future losses should be consistent from year to year.

Status

- These matters are under consideration by a BSFA Task Force charged with developing a Student Loan Insurance Estimating Plan.

Recommendations (From GAO Report: same as above)

- That the refund due the students, and various unidentified collections be removed from the OE suspense account and recorded in proper Fund accounts.
- That the report of overdue insurance premiums receivable be developed promptly and used in systematic attempts to collect overdue accounts.

Status

- These matters are under consideration by the BSFA Task Force on Accounting and Financial Control.

Recommendation (From HEW Audit: "Review of Controls Over Defaulted Claim Files and Collections -Federal Insurance Loan Program, Office of Guaranteed Student Loans" - 9/15/75)

- Establish a new claims and collection system, properly designed and implemented, to correct such problems as increasing default rates, and inaccurate and incomplete accounting data. Other recommendations included to the development and implementation of an interim system to lessen the risk of claims being lost or collections being diverted to personal use during the development of a new major system.

Status

- A new collections system designed to correct the problems discussed in the audit became operational in 1977. Some modifications are still necessary, but most of the significant problems have been resolved.

Recommendation (From HEW Audit: "Review of Lender Institutions Participating in the Guaranteed Student Loan Program" - 9/7/73)

- Assign priority for on-site visits to the larger lending institutions where the magnitude of errors and program impact are greatest.

Status

- o BSFA intends to embark on a program of systematic, on-site lender reviews. BSFA is currently developing criteria for targeting these reviews. The criteria will be developed by September 30, 1978

B. National Direct Student Loan Program

Recommendation (From GAO Audit: "The National Direct Student Loan Program Requires More Attention by the Office of Education and Participating Institutions" - 6/27/77)

- o That OE expedite the processing of Fiscal Operations Reports.

Status

- o The first combined application and Fiscal Operations Report will be mailed September 1, 1978, and will be due in Washington October 15. It will be machine-edited in late October. Schools will be notified of errors in November and the data base will be closed in December, far earlier than ever before.

C. Basic Educational Opportunity Grants Program

Recommendation (From GAO Report: "Office of Education's Basic Grant Program Can Be Improved"- 9/21/77:

- o Drop-out data should be collected on a routine basis.

Status

- o OE agrees with the recommendation. Within two months, a procedure will be developed for collecting this information.

Recommendation (From GAO Report: same as above)

- o Separate tests in the disbursement process should be instituted to detect duplicate payments.

Status

- o OE believes it better to provide for earlier identification of duplicate payments and for ongoing investigation of suspect cases. In this regard, BSFA has just conducted a match of Social Security numbers and addresses on BEOG applications.

Recommendation (From GAO Report: same as above)

- o Periodically assess the effect of the program's out-reach efforts.

Status

- o OE believes that this is unnecessary at this time. Underutilization was a problem in the 1974-75 academic year but not since then. It has received no complaints in the last three years about groups of students not being aware of program benefits.

Recommendation (From HEW Audit: "Review of Procedures for Processing and Controlling Basic Educational Opportunity Grants - Phase II"(Draft) - 11/15/76:

- o Improve problems of data inaccuracy in subsystems of the Program Information Monitoring System (PIMS).

Status

- o OE concurred in the recommendations and agrees that data inaccuracy is a problem. It expects a revised, more accurate, and more streamlined PIMS to become operational in the 1979-80 academic year.

Recommendation (From HEW Audit: same as above)

- o Reviews at 17 grantee institutions located in nine regions pointed out a need for periodic surveillance over grantees. The auditors noted a number of deficiencies including (1) overpayments to recipients; (2) participating schools not meeting program eligibility requirements; (3) use of funds obtained for other programs to finance BEOG grants; (4) refund policies not being followed; (5) inaccuracies in Progress Reports and (6) poor administrative procedures or procedures inconsistent with program guidelines.

Status

- OE recognizes that these problems exist in some institutions and anticipates that its initiatives of certifying all participating institutions on a three year cycle, certifying all new institutions prior to participation, systematically conducting program reviews based on problem indicators and requiring that all participating institutions be independently audited every two years will minimize these problems.
- A site review guide is now being used and tested. It was developed one year ago and is undergoing final review. All problems identified above are addressed in the guide.
- A major quality control study will be undertaken within the next few months to help assure the integrity of the BEOG program.

Recommendation (From HEW Audit: "Review of Procedures for Processing and Controlling Basic Educational Opportunity Grants, Phase I" (Draft) - 11/15/76)

- OE should verify Progress Report SER data in a timely manner so that action can be initiated to identify, investigate, and resolve differences between amounts shown on Progress Reports and supporting SERs. OE should promptly follow-up on institutions that submit Progress Reports showing expenditures, but do not submit supporting SERS.

Status

- OE believes that current procedures are adequate. It has an automated edit routine which assures the reasonableness of figures. In February 1977, OE implemented a procedure for counting SERs submitted by smaller participants, weighing those from larger participants and comparing the count with that shown on the Progress Reports. In addition, OE said that in order to comply with the recommendation, all SERs would have to be compared in toto against the expenditures reported; discrepancies would have to be identified, and contact made with the institution prior to making any adjustments in the funding request. Virtually all adjustment requests would thus be delayed to an unacceptable extent, particularly for large schools.

Recommendation (From HEW Audit: same as above)

- The BEOG program office should formalize internal procedures to insure prompt identification of, and follow up with, institutions which have not submitted their required Progress Reports.

Status

- OE agrees. New procedures will be implemented in six months.

Recommendation (From GAO Report: "Letter to Commissioner of Education Bell Regarding OE's Refunds Under the Basic Educational Opportunity Grant Program" - 3/11/76)

- That OE review and revise its refund policies so that institutions would begin to follow them more than they had in the past.

Status

- On July 19, 1978, HEW proposed rules that would require each educational institution participating in the GSL program to have a fair and equitable refund policy. The proposed rule sets forth criteria OE would use in determining whether a particular school's refund policy is fair and equitable. In an NPRM of General Provisions relating to all student assistance programs, which is expected to be signed within the next few days, OE will solicit public comment on this issue before deciding whether a refund policy should be established for all programs. OE will request commentators to provide examples of institutional abuses which they believe have been caused by an institution's refund policy or lack thereof.

Recommendation (From HEW Report: "Recommendations for Improved Management of the Federal Student Aid Programs" - June 1977 hereinafter "HEW-SG")

- o The responsibilities of educational institutions for the administration of student financial aid programs should be precisely defined--especially those of BEOG--to end confusion about the institution's responsibility for accuracy of data, the amount of validation required, the requirements to pursue repayments of over awards, etc.

Status

- o On May 5, 1978, a Notice of Proposed Rulemaking was published for the Basic Grants program. The NPRM addresses these problems.

D. Pertaining to More than One Program

Recommendation (From HEW Audit: "Student Financial Aid Programs at Proprietary Vocational Schools" 5/4/78)

- o That OE place high priority on proprietary vocational schools in its compliance and program review activities.

Status

- o BSFA's new Division of Certification and Program Review has responsibility for reviewing institutions with respect to all programs. The Division has established an 18-factor priorities system for reviewing institutions. Proprietary schools are not per se singled out on the list, but the eighteen indicators show a high correlation with characteristics of many proprietary schools.

- o In addition, the Inspector General will be taking the lead in a systematic effort to prevent and reduce fraud and abuse by problem schools, with special emphasis on proprietary schools. The first stage will focus on the beauty school industry, which constitutes the largest number of proprietary schools participating in student assistance programs. We anticipate expanding this clean-up effort to other types of problem institutions.

Recommendation (From HEW Audit: same as above)

- That OE re-emphasize, by a detailed letter to all vocational schools, their responsibilities under the student financial aid programs to avoid the types of practices discussed in the Audit.

Status

- Given the complexity of these programs and the management deficiencies that exist at all types of schools, OE does not believe that a detailed letter to vocational schools is an effective mechanism to insure proper administration. There are, however, a number of efforts underway which achieve this objective, including: the distribution of a student aid handbook; quarterly meetings between BSFA officers and the proprietary school associations; a nationwide training program, with a special program designed solely for proprietary schools to be held in academic year 1978-79; and a National Conference on Fraud, Abuse and Waste, which the Department is sponsoring in December. The Conference will include workshops that deal with a variety of abuses in the student assistance programs.

Recommendation (From HEW Audit: same as above)

- That OE monitor the recovery of interest overbillings and the correction of deficiencies in the 25 schools discussed in the Audit.

Status

- BSFA's Division of Certification and Program Review, will work with the Audit Agency to develop a system for improving the resolution of audit deficiencies for all the student assistance programs, including the 25 schools mentioned in the Audit, to insure that proper amounts of refunds are recovered and the reported deficiencies are corrected.

Recommendation (From HEW Audit: same as above)

- That OE develop a well-coordinated refund policy covering all student financial aid programs and require pro-rata shares to each program in case of multiple funding.

Status

- (See discussion of this issue under BEOG audit recommendations.)

Recommendation (From HEW Audit: same as above)

- That OE develop regulations setting forth the maximum number of times students can be carried "in good standing" before refunds must be made.

Status

- If the recommendation means that OE set forth in regulations specific requirements for determining the date of a student's effective withdrawal from an institution, OE agrees, and will proceed to do so. If, however, the recommendation means that OE should define, by regulation, the term "good standing", OE believes that the legislation authorizing the federal student assistance programs specify that "good standing" is to be defined by the institution. OE would, of course, carefully monitor institutional conformance in establishing and administering standards of "good standing" and "satisfactory progress", and be prepared to request appropriate legislative authority should significant abuses be discovered.

Recommendation (From HEW Audit: same as above)

- That OE extend the financial requirements of 45 CFR part 177.66 (d) for all its student financial aid programs and establish a system to routinely monitor them.

Status

- OE has proposed that a) all institutions participating or seeking to participate in student financial aid programs be required to submit Participation Agreements subject to renewal biennially (however, GSL agreements do not terminate automatically after two years); b) all participating institutions be required, as part of the participation review and recertification process, to submit financial statements to accompany the Participation Agreement renewal application, and c) that an institution be audited at least biannually by independent auditors in accordance with HEW guidelines.

Recommendation (From HEW Audit: same as above)

- That OE require proprietary vocational schools to submit periodic financial statements.

Status

- Proposed regulations require that all institutions, including proprietary schools, be independently audited on a biennial basis.

Recommendation (From HEW Audit: same as above)

- That OE require the submission of additional information and assurances concerning compensating balances, unearned tuition, unrecorded refunds due and other significant matters as part of financial statements.

Status

- The Commissioner will require that items such as restricted code accounts, unearned tuition, refunds due to students, and institutional contributions due to the NDSL fund be properly treated in conjunction with the biennial financial audit.

Recommendation (From HEW Audit: same as above)

- That OE establish similar regulations for all student financial aid programs. They should require vocational schools to further define the placement statistics required by the current GSL regulations. This could be accomplished by having the schools provide such data as: number of students enrolled in courses and requesting placement services, and successful placements.

Status

- o Several regulations under various stages of development address these concerns.

Recommendation (From HEW Audit: same as above)

- o That OE consolidate the regulations governing the eligibility of individual programs or courses and develop a single definition for all of the OE financial aid programs.

Status

- o This process is underway.

Recommendation (From HEW Audit: same as above)

- o That OE require vocational technical schools to submit a list of all programs at their institutions, citing for each program the duration and number of hours of instruction.

Status

- o As a result of the new requirements of institutional participation in student assistance programs, all institutions will be certified over a three year period. As part of that process, regulations in various stages of completion would require vocational schools to submit a list of all programs of study offered, the duration of each program, and the number of clock-hours of instruction per week, if the school offers programs on a clock-hour basis.

Recommendation (From HEW Audit: same as above)

- o That OE reassess the eligibility of individual programs at vocational schools.

**Status**

- This issue is being addressed in regulations currently under development relating to institutional eligibility.

**Recommendation** (From HEW Audit: same as above)

- That OE issue institutional eligibility letters that adequately identify which courses are eligible for the student financial aid programs.

**Status**

- OE is utilizing its eligibility letters to institutions to make school officials aware of certain limitations imposed upon the institutions' eligibility. However, not every letter will list the eligibility of each program; letters will provide general eligibility information and provide references to regulations.

**Recommendation** (From HEW Audit: same as above)

- That OE develop procedures to be followed by its regional representatives in obtaining and protecting Federal assets held by closed schools. At a minimum, these procedures should provide for 1) maintaining close coordination with state education agencies to identify closed and high risk schools, 2) taking prompt action to secure promissory notes on hand, 3) arranging for loan servicing for closed schools, 4) revising collection agency agreements when schools close so that amounts collected are forwarded to OE.

**Status**

- Procedures are in place and are in the process of being implemented which relate to these matters.

**Recommendation** (From HEW-SG)

- HEW should tighten the coordination between student financial aid programs and other Federal and public support programs to prevent duplication of funds in meeting a student's educational expenses, and assure that maintenance payments to students or their parents from other public aid sources are not reduced for students receiving financial aid for direct educational expenses.

Status

- This very important recommendation will be followed up on by the Department in a major way over the next few months.

Recommendation (From HEW-SG)

- The Office of Education should require States and institutions to verify financial data submitted by parents and students in applying for financial aid. Comparisons should be made of data if received from various sources, including final verification with income tax records.

Status

- The Basic Grant validation process addresses this problem. For campus-based programs, OE is considering in regulations currently under development the request that any student application submitted before January 1 must be validated by the institution. Also, proposed new regulations on administrative standards which are now ready for signature include a provision requiring schools to review for consistency all information relevant to Student Aid Applications.
- Both BSFA and IG are expanding their computer matching procedures to further ensure that these programs are not abused.

Recommendation (From HEW-SG)

- OE should develop a standard financial aid transcript for institutions to use in monitoring students' financial aid to assure that the cumulative award limits are not violated and to communicate other needed information.

### Status

- This recommendation will be explored. There are other procedures currently in place to deal with this problem. For example, over-awards in the GSL program are prevented by a computer-editing procedure.

## REQUEST IV: SIGNIFICANT IMPROVEMENTS

Request IV: Please provide a brief description of each significant improvement made (or scheduled to be made) in each OE student financial assistance program since January 1977, giving the status of each such improvement and the date when it was or is expected to be fully implemented. Please submit any additional significant improvements which are believed to be needed but which have not yet been scheduled.

### Response:

### I. IMPROVEMENTS MADE

### ORGANIZATIONAL CHANGES

The Organization of the Bureau of Student Financial Assistance (BSFA), in May 1977, placed all OE student aid programs in one organizational unit. At the same time, headquarters gained direct control over field offices. Leo Kornfeld, an education finance and computer systems expert, assumed the new position of Deputy Commissioner for Student Financial Assistance in August 1977. In December of 1977, BSFA reorganized functionally. That process accomplished the following:

- Established the Division of Compliance to investigate problem institutions, identify fraud and abuse, and conduct cooperative activities with the HEW Inspector General and the Department of Justice.

- Established the Division of Certification and Program Review (DCPR) to certify institutional participation, and monitor performance through audits and program reviews. In addition, DCPR has the responsibility for the validation of Basic Grant applications.

- Centered review activities, formerly the responsibility of three different organizations, in the Audit Review Branch.

## CROSS-CUTTING CHANGES

- Institutional Fraud. The Office of Inspector General (OIG) and BSFA intensified efforts to clean up the backlog of pending investigations of fraud and abuse. In January 1978, a FY 1978 request for a supplemental appropriation was submitted to the Congress to support 20 additional OIG investigators for the student financial assistance program. Also in January 1978, BSFA provided funds to OIG to support 6 additional investigators to work on the student aid case backlog.

- Institutional Coordination and Cooperation
  - Proposed regulations expected to be signed in July 1978 establish standards for administrative capability and fiscal responsibility which institutions participating in OE Student Aid programs must meet. These regulations will serve as the basis for the certification process.
  - The regulations setting forth the procedures for Limit, Suspend, and Termination actions were signed in December, 1977.
  - The Handbook for institutional student financial aid and fiscal officers, formerly published only for the Basic Grants Program, was sustantially expanded in 1977-78 and 1978-79. It will now include the Guaranteed Student Loan Program and the three campus-based programs.
  - In July 1978, BSFA established a single comprehensive agreement between OE and each participating institution spelling out institutional responsibilities.
  - The Administration's FY 1979 budget requested funds to provide payment of an institutional allowance (as provided in the Education Amendments of 1976) to all institutions participating in the GSL and BEOG Programs to cover administrative costs of implementing student information and related requirements.
  - December 1977, Student Information Regulations provide for student consumer information services. Institutions must now provide (on request) students with a statement of rights and responsibilities, and information on loan terms and repayment schedules.

- -- The "Student Guide", revised and published in January 1978, provided students with more information on aid programs and on their rights and responsibilities.

- -- The Collection Procedures Manual and 1978 NACUBO accounting booklet, are now used to provide guidance on the internal administration of these programs during audit reviews.

- -- Nationwide training for institutional financial aid and fiscal officers, which concentrated on the Basic Grant Program in previous years, was expanded to include the Guaranteed Student Loan and campus-based programs. During the 1977-78 academic year, more than 500 workshops have been held for over 20,000 participants.

o Program Reviews

Formerly, institutional program reviews were a regional office function. Each region was responsible for scheduling and establishing review procedures. Reports were not submitted to the central office unless specifically requested. There was no system for deciding where reviews would be conducted. The following central control system is now operating:

- -- The ten regions were requested to submit copies of reports on all program reviews conducted since July 1, 1977. BSFA is now creating a central institutional master file which will include Audit and Compliance information.

- -- A system was devised in late 1977 to identify problem institutions and establish priorities for program reviews. In March 1978, the regions received these lists, and prepared a schedule of program reviews from April 1 through September 30, 1978.

- -- In September 1978, BSFA will review, revise, and prepare the priority determination indicators. A control chart will monitor all regional and central office program review schedules.

- Regions now submit copies of all program reviews to the central office. The reports are classified according to the extent and severity of problems uncovered.

- All items in program review reports are coded with audit exception codes. An analysis is made each calendar quarter of major problems by type of institution, and the frequency of occurrence.

- A standard Program Review Field Document is nearing completion. This guide should result in uniform and comprehensive reviews.

- Upon the effective date of the Fiscal and Administrative standards regulations, DCPR will begin to conduct certification reviews of all institutions seeking permission to participate and currently participating in BSFA programs. A certification review appraises the institution's financial responsibility and administrative capability to administer student financial assistance. The certification reviews of the approximately 8,000 existing participants will be conducted over a three year period beginning in the fall of 1978.

o Audits

- During the period May to November 1977, additional staff members were added to the audit review staff. This provided for more prompt handling of audit reports. The percentage of audits on hand, open for six months or more, decreased from 67% last July to 21% at the end of March, 1978.

- Although it is still manual, the logging and record-keeping systems of audit control have been improved. Additional improvements are needed and must be scheduled for the future. A monitoring system, in place 1978-79, will track institutions' compliance with the audit requirement.

- In conjunction with the HEW Audit Agency, the audit guide for the campus-based programs has been revised and is scheduled for publication in August, 1978. A new audit guide for the BEOG Program has been written and will appear at the same time.

-- Again, in cooperation with the HEW Audit Agency, the coding system for entering audit deficiencies on the HEW Audit Agency data base tracking system was revised and BSFA is now able to identify the types of problems which are uncovered by audits.

-- In March 1977, BSFA adopted a different style for final letters of determination on audit reports to the institutions. Instead of cumbersome narrative letters, BSFA now uses a short cover letter with an attachment that cites each finding and/or exception; the institutional response; the applicable regulation reference; and any additional comments the audit reviewer wishes to make.

o Administration

-- BSFA has initiated a comprehensive staff management and program training effort.

-- As part of this effort, all DCPR staff were trained on the various regulatory and technical aspects of Title IV programs and then tested on their knowledge of these provisions. Based on the results of this test, staff are approved for conducting program reviews. This activity will be expanded to include short-term details of regional staff to Washington and on-site "experienceships" in institutional financial aid and fiscal offices.

## BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAM

The following steps were initiated to deal with fraud and abuse and mismanagement.

o BSFA tightened "edits" in the processing system used to flag applications with incomplete or inconsistent data. For the first time, application payments will not be made to students with incomplete and inconsistent applications. Instead, applications are being returned to students for additions and corrections.

o BSFA began, in February 1978, an annual procedure of selecting 200,000 applications for validation. Eighty percent are selected on the basis of pre-established criteria and the remainder on a random sample basis. Those selected are required to substantiate (validate) key areas of their applications prior to payment of their Basic Grant awards.

- A validation Handbook was developed and distributed to all participating schools; and training sessions were conducted in 80 locations around the country.
- BSFA plans to evaluate the current year's activity as a basis for determining necessary future changes. As part of that effort, BSFA will do a statistical match with IRS data to determine the extent to which misreporting occurs.
- The Multiple Data Entry (MDE) approach to processing Basic Grant applications became operational in the 1978-79 processing year. Under this procedure, students who applied for need analysis through the American College Testing Program, the College Scholarship Service or the States of Pennsylvania and New Jersey could authorize the release of appropriate data to the Basic Grants central processor. Thus, students and parents did not have to file separate Basic Grant application forms. This process resulted in an estimated reduction of 2.5 million forms to be completed.
- BSFA conducted computer matches of addresses and social security numbers in July 1978 to detect recipients of multiple BEOG grants.
- BSFA conducted computer matches in July 1978 to assure that BEOG applications contain accurate information concerning benefits received under other Federal programs, including:

  --VA benefits
  --SSA benefits
  --AFDC benefits
- BSFA initiated computer matches in July 1978 to detect BEOG applicants who are in default on GSL loans.

GUARANTEED STUDENT LOAN PROGRAM

- Proposed regulations for the GSLP, published in the Federal Register on April 5, 1978, are expected to reduce both program abuse and the default rate. New provisions include more specific requirements for lender due diligence in servicing and collecting loans; new repayment flexibility for lenders and borrowers; and provisions to encourage lenders to disburse loans in multiple installments.

- In May 1978, BSFA completed installation of a computerized billing system in all regions.

- In November 1977, BSFA stepped up referrals of cases to U.S. Attorneys. In the last 9 months, over 1,500 cases have been referred, compared to 500 over the previous 5 years.

- At the request of Secretary Califano, Attorney General Bell agreed to cooperate with HEW in handling the increased number of cases referred to the Justice Department for litigation.

- Federal collectors are now converting defaulted accounts to repayment at a rate of 1200 per week--more than four times the rate a year ago. During the quarter ended June 30, 1978:

  - $44.5 million was collected on defaulted loans, twice the amount collected for the same quarter in FY 1976 and 1977.

  - Approximately 15,000 defaulters have begun repayment or fulfilled their obligations, one and one-half times the total for all of FY 1977.

- Operation Cross-Check was initiated:

  - Phase I (initiated October 1977) matched the student default list with the HEW employee payroll. Over one-half of the current HEW employees identified have repaid or are making payments.

  - Phase II (initiated February 1978) matched the student default list with all Federal civilian employees. To date, of the 6,600 individuals identified, 540 have begun repayment and 353 have either paid in full or had obligations of $25 or less written off.

  - Phase III. Routine use under the Privacy Act will be published shortly to extend computer matches to all military personnel.

- Began to obtain latest addresses of all defaulted borrowers from the Internal Revenue Service in March, 1978.

- A request was made in July 1978 to the Congress to reprogram funds to increase the number of Federal collectors, to improve computer support, and to train financial aid officers. This request was recently approved by the Labor-HEW subcommittee of the House Appropriations Committee.

- Pilot Projects will be initiated in the Atlanta and San Francisco regions for the collection of defaulted loans by private collection firms. The RFP was published in June, 1978.

- Intensive training of school and lender examiners has taken place. Collector training is underway utilizing an outside collection consultant firm and collection procedures are being re-defined.

- Proposed regulations published in July 1978 require equitable refund policies at all participating institutions in the GSL program.

- In June 1978, an experimental project involving pre-claims assistance to lenders was initiated in San Francisco. The purpose is to help lenders bring delinquent accounts into repayment status so that they do not become default claims.

- Efforts mandated by the Educational Amendments of 1976 encourage States and private nonprofit agencies to establish a student loan insurance program in those States which do not have such a program. To date, the number of State or private Guarantee Agencies has increased by 6, from 25 to 31. By the end of the FY 78, another 3 states are expected to begin this activity for a total of 34. By the end of FY 79 a total of 44 states are expected to have student loan insurance program.

- Funds have been requested in the FY 1979 budget to implement the provisions of the Education Amendments of 1976 that provide payment of an Administrative Cost Allowance and a Supplemental Administrative Cost Allowance to strengthen existing guarantee agencies and promote formation of new ones. These payments will (1) promote greater agency operating efficiency in areas of pre-claims assistance, collections, and lender promotion; (2) encourage agencies to liberalize their eligibility requirements; and (3) reduce defaults.

- Closeout procedures have been instituted to remove from the Student Loan Insurance Fund accounts receivable which should have been written off.

- Insurance claim backlogs have been sharply reduced. This was accomplished by the distribution to regions of new claims processing procedures and the simplification of claims payment policies.

## NATIONAL DIRECT STUDENT LOAN PROGRAM

- In July 1977, schools were required to submit data on default rates.

- In March 1978, a letter was sent to presidents of all participating institutions explaining procedures for calculating defaults and stressing the need for due diligence in collecting loans.

- BSFA implemented in April 1978, the provision of the Education Amendments of 1972 that enable institutions to assign to the Office of Education loan notes in default for more than 2 years. As of July 1978, requests for 100,000 assignment forms were received from 500 schools.

- A letter was also sent to institutions explaining their obligation to withdraw from the government only those funds needed for loan operations during the next 30 days.

- A requirement for a cash flow analysis was built into the revision of the NDSL HEW Audit Guide.

## CAMPUS-BASED PROGRAMS

Final regulations in the campus-based programs, to be published shortly, will incorporate the changes resulting from the Education Amendments of 1976 and will significantly improve institutional program mangement.

## HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

The regulations for the Health Education Assistance Loan Program will be published as interim-final in time to have that program operational by September of 1978.

## II. ANTICIPATED FUTURE ACTIONS

### CROSS-CUTTING

- A series of meetings will be held with institution presidents and chief fiscal officers to emphasize the need for personal involvement of these officials in improving the administration of student financial assistance programs and to provide guidance on new procedures. Special meetings will be held with proprietary schools and developing institutions.

- Special workshops will be held in December, 1978 at the Department's National Conference on Fraud, Abuse, and Error.

- A crackdown on fraud and abuse by problem schools, with special emphasis on proprietary schools will be initiated.

  - First stage will focus on the beauty school industry -- approximately 800 schools.

  - Second stage will apply techniques developed in the beauty school investigation to other types of institutions.

- We are reviewing current policies to determine what steps will be necessary to ensure that recipients of Federal student aid do not receive more than 100 percent of the actual costs of education. Under consideration are the following:

  - Overall policy for dealing with benefits from all programs (e.g., VA, CETA, BEOG).

  - Contact with States and institutions to work out ways to integrate and coordinate institutional, State and Federal aid.

  - Working with higher education institutions to improve the status and quality of student financial aid officers.

### GSL PROGRAM

- Expand the San Francisco pre-claims assistance project nationwide.

- Extend Operation Cross-Check to match GSL default file with the military payroll.
- Eliminate the entire backlog of unworked GSL defaults by the end of FY 1982.

### BEOG PROGRAM

- Proposed legislation is under consideration that will prevent students who default on NDSL or GSL loans from receiving BEOG grants at any school.
- Anticipate making VA, SSA, AFDC, GSL matches a routine part of the BEOG application screening procedures.
- Conduct a major quality control study to assure the integrity of the BEOG program.
- Anticipate making matches to prevent multiple BEOGs grants a routine procedure.

### NDSL PROGRAM

- Beginning in academic year 1979-80, reduce Federal contributions to institutions with high NDSL default rates that do not show improvement. Proposed regulations are to be published.

## REQUEST V: LEGISLATIVE CHANGES

Please describe any significant legislative changes relating to program administration which have been made since January 1977 or are believed to be needed but have not been made. For those changes which have not been made, please indicate whether or not HEW has recommended such changes to the Congress.

### Response:

### A. Changes Made

1. The Technical and Miscellaneous Amendments of 1977, clarified inconsistencies in the Education Amendments of 1976.
2. The Health Education Assistance Loan Program (HEAL) was enacted on October 12, 1976 (P.L. 94-484) and amended on December 19, 1977 (P.L. 95-215). Important amendments now provide for the overriding of State usury laws, a deferral of interest option for borrowers during a

school and training period, and permission for borrowing during certain periods, such as internship and residency, to cover interest due on outstanding loans.

### B. Changes Needed

1. President Carter has requested a $1.46 billion package of grants, work study, and loans in FY 1979 to continue our current efforts and to provide needed relief for college expenses to middle income families.

2. H.R. 6715, the Technical Corrections Act of 1977, contains technical, clerical and clarifying amendments to the Internal Revenue Code of 1954. It has passed the House, was favorably reported out of the Senate Finance Committee and is awaiting floor debate in the Senate.

   H.R. 6715 permits the disclosure to BSFA of an IRS mailing address of any taxpayer who has defaulted on a loan in the National Direct Student Loan Program. This section also provides that the Commissioner of Education may disclose this information to institutions for the purposes of locating defaulted borrowers of loans made by the school.

In preparation for the Higher Education reauthorization, all OE student aid programs are now being reviewed. Recommendations for legislative action, based on this review, will be submitted to the Congress by next Spring.

### REQUEST VI: COMPUTER SYSTEMS

Please identify any significant problems, deficiencies or inadequacies in the computer system or systems being used in the administration of OE student financial assistance programs and describe any significant corrective action or improvements presently scheduled or planned.

Response: Major problems with the computer system and BSFA corrective actons are as follows:

GSL:

- Problem: The current computer system, designed from a computer perspective rather than a user perspective, ignored program requirements. This resulted in overcomplicated and expensive procedures, and inadequate response time.

Action: System now under revision.

-- By the end of this summer, the current computer system will be completely operational.

-- On July 3, 1978, BSFA issued an RFP for a competitive bid on the replacement of the present computer system.

- Problem: During conversion from the previous contractor errors in the file data were discovered.

  Action: BSFA is correcting this situation.

NDSL

- Problem: The absence of a collection process and a data base.

- Action:

  -- Implementation of procedures for returning unpaid NDSL loans to the Federal Government.

  -- Initiation of a program to bring NDSL defaulters into an automatic billing and collection system.

BEOG:

- Problem: The limited capacity of the current system to generate timely reports and to efficiently process routine documents.

  Action: The current batch-mode system is currently being replaced with an interactive mini-computer system to allow quicker access to the data base, flexibility for routine reports, and broader access to remote terminals.

Health Education Assistance Loan (HEAL):

Placed in BSFA in mid-1977, HEAL currently has no computer system. BSFA has initiated efforts to design and procure such a system.

## REQUEST VII: DATA COLLECTION AND ANALYSIS

Please describe briefly any significant arrangements currently in effect to collect and analyze data for use in preventing and detecting fraud and program abuse in OE's student financial assistance programs, indicating how and by whom each significant category of information is collected and analyzed.

### I. BUREAU OF STUDENT FINANCIAL ASSISTANCE (BSFA)

#### A. BSFA DIVISION OF CERTIFICATION AND PROGRAM REVIEW (DCPR)

- o Audits: Institutions are now required by regulation to have their campus-based SFA programs audited by independent auditors at least once every two years. Proposed regulations requiring BEOG amd GSL audits should be in effect for the 1978-79 academic year.

  -- DCPR receives audits from HEW Audit Agency

  -- DCPR logs, tracks, and reviews audit reports

  -- DCPR negotiates the resolution of audit exceptions.

  -- DCPR informs other divisions of audit findings.

- o Program Reviews examine an institution's financial management

  -- DCPR collects and monitors necessary data and then uses 18 indicators, including high NDSL default rates and the absence of BEOG recoveries, to identify problem schools. A list is attached in Tab 6.

  -- The list of these schools is submitted to the regions, which decide how many of the reviews they are able to conduct.

  -- The regions' reviews are composed of at least 80% of the high priority schools along with approximately 20% at random or at the discretion of the region.

- Referrals

  -- DCPR refers cases for ciminal or civil investigation to BSFA's Division of Compliance.

- DCPR contracts with the American College Testing Service to process and validate BEOG applications. ACT detects inconsistent or incomplete applications and then requires students to supply consistent data prior to the processing of an application. In addition, on an annual basis, 200,000 applications (180,000 with questionable information; 20,000 at random) are selected for validation. Students are required to substantiate key items in their applications prior to the payment of awards.

## B. DIVISION OF COMPLIANCE

This Division identifies and investigates fraud and abuse in BSFA programs. Compliance specifically requires educational institutions to make proper refunds and to provide data to justify holds on claims, interest payments, or other funds to be disbursed.

- Compliance prepares cases for

  -- administrative action

  -- referral through OGC to the Justice Department for civil litigation.

  -- referral to IG for criminal investigation.

- Investigates Referrals from DCPR

- National Early Warning Tracking System (NEWTS)

  NEWTS initiates Compliance investigations. The system assembles data such as allegations, complaints, State agency reports, and inconsistencies in institutional reports filed with BSFA.

- Treatment of Problem Schools Identified by NEWTS

  -- Action to collect refunds

-- Referral for litigation

-- Write-off of cases when no recourse exists:

- expiration of statute of limitations
- records not available
- not in the case of the government's best interest to pursue

## C. PROBLEM SCHOOLS COMMITTEE

Chaired by DCPR, this inter- and intra-divisional committee coordinates procedures for handling problem schools.

## D. DIVISION OF QUALITY ASSURANCE

- o By Fall of 1978, BSFA will award a contract for a quality control study of the Basic Grant Program. This study will determine the types and causes of error rates and identify 1979-80 actions which can reduce or eliminate errors; e.g., on-going quality control systems.
- o With contract assistance, BSFA will also conduct a study to develop analytical profiles of zero income applicants under the BEOG program.
- o Under contract, BSFA will conduct an analysis of the application corrections process. This study will examine various patterns in the corrections process and will assess the impact of revised and tightened edit procedures implemented for 1978-79.

## II. INSPECTOR GENERAL

### A. OFFICE OF INVESTIGATIONS (OI).

- o OI investigates referrals from BSFA Compliance. These are:
  1) Cases in which preliminary review indicates potential fraud.
  2) Cases involving an alleged impropriety by a Federal contractor or a State Agency or Federal employee.
- o OI also investigates referrals from external investigatory agencies and other sources.
- o IG refers criminal cases that are ready for formal action to the U.S. Attorney.

## B. HEW AUDIT AGENCY

The HEW Audit Agency performs audits of student aid programs whenever it receives a special request from BSFA or other Department officials.

The majority of the audits of the campus-based (NDSL, SEOG, and CW-S) and BEOG programs are done by independent accountants (Certified Public Accountants, State Auditors, or other Licensed Public Accountants). These audits are received by the Audit Agency which also refers them to BSFA's Division of Certification and Program Review. The Audit Agency currently performs all of the audits of the Guaranteed Student Loan Program.

The Agency is developing a computerized system to track institutions, independent auditors, findings, program reviews, audit status, and audit fees.

Request VII (cont'd.): Please indicate specifically the extent to which information is or is not available concerning:

Request VII-a: Default, delinquency and drop-out rates by schools, spelling out any significant differences in information available for school lenders and other schools;

Response: We have the complete list of NDSL default rates, by institution.

Beginning this fall, drop-out rates will be collected on a sample basis. Information on GSL default, by school, is not available.

Request VII-b: Placement rates in appropriate jobs for students completing courses at vocational schools;

Response: This data is not collected.

Request VII-c: The extent to which student financial assistance programs have been primarily responsible for the establishment or rapid expansion of proprietary schools;

Response: No information is available on this request.

Request VII-d: The number of schools which, directly or indirectly, derive most of their revenues from government programs;

Response: This information is not currently available. Institutional certifications are expected to provide the information from which we can calculate the proportion of revenues that are derived from government programs.

Request VII-e: The identity of schools receiving unusually large amounts of funds from government programs.

Response: This information is not available. However, we have provided you separately with a computer printout of schools where 80% or more of the students receive BEOGs.

REQUEST VIII. CONTROL OF MONITORING ACTIVITIES

Please describe any procedures used to control and track monitoring activities and related information by school, such as:

Request VIII-1: Extent and nature of student and other complaints.

Response: BSFA's Division of Certification and Program Review monitors the number of complaints about institutions. Five complaints about a particular school is one of the eighteen criteria used to identify problem schools.

Request VIII-2: Audits scheduled and completed.

Response: See response to Request VII, (IA), BSFA Division of Certification and Program Review and (IIB), IG HEW Audit Agency.

Until 1976-77, audits of institutions were voluntary. Still, as many as 40% of the institutions had audits using audit guides prepared by OE and the HEW Audit agency. The following table lists number of audits received by OE during periods indicated.

| | |
|---|---|
| 7/72 to 6/73 | 1,822 |
| 7/73 to 6/74 | 2,379 |
| 7/74 to 6/75 | 2,345 |
| 7/75 to 6/76 | 2,930 |
| 7/76 to 7/77 | 2,523 |
| 7/77 to 4/78 | 2,368 |

Proposed regulations require that the institutions participating in BSFA projects be independently audited at least once every 2 years. The institutions themselves will schedule the audit. Thus, we cannot submit a detailed schedule at this time.

### Request VIII-3: Program and compliance reviews.

Response: See (I) response to Request VII, BSFA Divisions of Certification and Program Review; and Compliance.

- 7/77-3/78 - received 163 reviews from the regions.
- 4/78 - Implemented a system for tracking and logging reviews.
  - -- 399 reviews assigned to the regions
  - -- 178 reviews conducted 4/78-7/78
  - -- 154 scheduled 7/78-9/78
  - -- 67 not yet scheduled

### Request VIII-4: Investigations

Response: See response to Request VII, (IB), BSFA Division of Compliance and (IIA), IG Office of Investigations.

### Request VIII-5: Monitoring activities conducted by non-HEW entitites, either governmental or non-governmental

Response: See response to Request VII, (IIB) IG HEW Audit Agency.

## REQUEST IX. CONTROL OF CORRECTIVE ACTIONS

Please describe any procedures used to initiate necessary corrective action and track its progress, including particularly:

Request IX-1: Action to stop or reduce disbursement of funds under student financial assistance programs (or other programs, where appropriate).

Response:

1. The BSFA Deputy Commissioner can initiate a DFAFS freeze when a loss of Federal funds is imminent. This short-term emergency action prevents the school from drawing-down any HEW monies.

2. When the Director of the Division of Certification and Program Review decides that a school has been awarded a specific amount of surplus dollars, he can notify the BSFA Director of Program Operations to reduce (deobligate) funds already authorized or allocated.

Request IX-2: Action to recover funds already disbursed (a) through administrative action (because of audit exceptions or for other reasons), or (b) through court action. (Please indicate specifically whether or not statistics are maintained concerning amounts which cannot be collected because of bankruptcy or insolvency or for other reasons not involving the merits of the government's claim.)

Response:

A. BSFA administrative action to recover funds is as follows: (1) Negotiation with the institution, (2) and (3) DFAFS freeze and deobligation (see above response to Request IX-1) and (4) Limit, Suspend and Terminate (see response to Request IX-4).

   In addition, after negotiating an audit exception requiring the return of funds to the Federal Government, BSFA (1) tracks and recovers NDSL-related exceptions or, (2) turns over to OE Finance all other audit exceptions to track and recover.

B. BSFA and the IG refer cases for court action to the Justice Department.

Information on accounts which cannot be collected because of bankruptcy is not available.

Request IX-3: Changes in procedures and regulations.

Response: The Director of Policy and Program Development, in conjunction with other appropriate Division Directors, reviews the situation and recommends changes to the Deputy Commissioner. Depending on the policy significance of the change, the Deputy Commissioner either will make a decision or recommend action to the Commissioner.

Changes in regulations are handled through the normal regulation development and review process.

Request IX-4: Actions to suspend, limit or terminate participating institutions.

Response: Limitation, suspension and termination (LST) are defined as:

- o Limitation - the continuation of an institution's eligibility for any or all of the BSFA programs subject to compliance with special conditions set by the Commissioner.
- o Suspension - the removal of an institution's eligibility for any or all BSFA programs for a period of time.
- o Termination - the unqualified removal of an institution's eligibility for any or all Title IV programs (covered by the LST regulations) for an indefinite period of time.

With advice from the Office of General Counsel, BSFA analyzes all proposed requests for LST action in order to ensure that grounds for action do in fact exist.

Request IX-5: Referrals for criminal prosecution and the prosecutions and convictions resulting therefrom.

Response: When BSFA suspects criminal activities, it refers cases to IG.

DESCRIPTION OF THE TITLE IV PROGRAMS

| PROGRAM | TYPE OF AID | STUDENT ELIGIBILITY | AWARD LEVELS IN 1978-79 | APPLICATION PROCESS | AWARD PROCESS | BENEFICIARIES | INSTITUTIONS ELIGIBLE OR PARTICIPATING |
|---|---|---|---|---|---|---|---|
| BEOG | grant | undergraduate, enrolled on at least a half-time basis at an eligible institution of postsecondary education (accredited colleges, universities, vocational, proprietary institutions.) | $1600 minus expected family contribution as determined by USOE student eligibility index. Grant may not exceed one-half actual cost of attendance at institution in which student is enrolled.<br>Minimum award -$50<br>Maximum award -$1600<br>Maximum authorized award increases to $1800 in 1979-80 if funded. | Student applies directly to government using BEOG application; or, for first time in 1978-79, by using the Financial Aid Forms of major private needs analyses services (CSS and ACT) or approved State agencies. | Funds actually disbursed through educational institution, with individual awards determined by Student Eligibility Report and BEOG Payment Schedule. | In 1976-77, approximately 1.9 million students received average awards of $757. In 1975-76, 69% of recipients attended public, 20% private non-profit and 9% proprietary institutions. Almost half of recipients were minorities. 27% of the recipients are independent students; one-half of those who are dependent come from families with incomes below $7500. | BEOG recipients attended 6270 separate institutions in 1976-77. |
| SEOG | grant | undergraduates, enrolled on at least a half-time basis at a participating institution and who has "exceptional financial need". USOE had defined this to mean students whose expected Family Contribution does not exceed one-half the cost of attendance. | Award cannot exceed $1500 or one-half total student aid provided to the student by the institution.<br>Minimum award -$200<br>Maximum cumulative award - $4000 ($5000 in the case of 5-year course of study) | Institution applies to USOE annually for SEOG funds using Tripartite Application Requests are reviewed by regional panels who recommend the institutional level of funding. | 90% of the available funds for initial year (IY) awards are distributed to the states based on a legislatively mandated formula (based on enrollments.) The other 10% is used to bring each state up to at least its 1972 funding level. The Commissioner has discretion over continuing year (CY) awards. They have been allocated so that every state receives in funding the same % of its total panel approved CY requests as every other. Institutional financial aid officers make the actual awards among eligible enrolled students at the institutions. | In 1976-77, an estimated 447,000 students received average awards of $520. It is estimated that ~~6~~ 40% of the recipients were minorities. | 3404 institutions participated in 1976. Approximately 6000 are eligible. Average institutional award was $69,000. |

DESCRIPTION OF THE TITLE IV PROGRAMS

| PROGRAM | TYPE OF AID | STUDENT ELIGIBILITY | AWARD LEVELS IN 1977-78 | APPLICATION PROCESS | AWARD PROCESS | BENEFICIARIES | INSTITUTIONS ELIGIBLE OR PARTICIPATING |
|---|---|---|---|---|---|---|---|
| NDSL | Subsidized educational loans | undergraduate, graduate, vocational and professional school students, enrolled on at least a half-time basis at participating institutions, who are "in need thereof to pursue their course of study. | Aggregate loan may not exceed $10,000 for graduate student, $5,000 for undergraduate who has completed two or more ye[illegible]ard [illegible] st [illegible] charged [illegible] in-school, [illegible]ce, and specified deferment periods. 3% thereafter. Repayment in equal installments over 10 years. Loans cancelled in the event of death, disability, and under certain other circumstances. | Same as SEOG and CW-S--institutions apply for additional federal capital annually using Tripartite application. Institutions serve as lenders and established revolving loan funds, with 90% federal funds and 10% institutional funds. Since 1959 federal capital contributions have totalled almost $4 billion. | Like SEOG and CW-S appropriations are distributed to the states based upon a legislatively mandate formula (different from SEOG and CW-S.) Institutional financial aid officers make actual awards. | In 1976-77, an estimated 843,000 students received average loans of $690. | 3167 institution participated in 1976. Approximately 6,000 are eligible. Average institutional award was $107,000. |
| GSL | subsidized educational loans | undergraduate, graduate, vocational school students, enrolled on at least a half-time basis at an "eligible institution", loan may be used to fill student need or to finance parental contribution. | Undergraduate loan limits not to exceed $2500 per year up to $7500 aggregate, Graduate loan up to $5000 per year and $15,000 aggregate (including undergraduate loans.) Interest rate is 7%. For students with adjusted family incomes of less than $25,000, or who have need, federal government pays interest during in-school, grace and deferment periods. Repayments similar to NDSL. | Student applies to lender which usually a commercial financial institution but in certain cases is an educational institution authorized to serve as lender. | Lenders use private capital Federal government pays interest for most students during in-school, grace and deferment periods, plus a special allowance to lenders plus insures lenders against borrower's death disability or default. In 26 states the states provide the guarantee and are responsible for the program with the federal government providing reinsurance and an administrative allowance In the states that do not have guaranty programs the federal government insures lenders directly. | In the 15 months from 1/1/75 to 9/30/76, under the state guaranty and FISL programs, a total of 1.3 million loans for $1.8 billion was originated. The average loan was about $1400. | Although there are 19,000 eligible lenders under the GSLP, only about 8,000 are active participants. The loans have been used at approximately 9,000 institutions of post-secondary education. |

# HEALTH EDUCATION ASSISTANCE LOAN PROGRAM (HEAL)

## Purpose and History of Program

- To make funds available to eligible graduate students in the health professions for study in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, and pharmacy.

- Became effective October 1, 1977, too late for implementation in 1977-78 academic year. GSLP regulations were amended in June 1977 to assist health profession students in that year.

- The HEAL program will be operational for the 1978-79 academic year.

- Authorized under Title VII-C-I of the Public Health Service Act, as amended.

## How it works

- Administered by the Health Loan Branch in the Division of Policy and Progiam Development in BSFA.

- Applications will be available through schools and OE this summer.

- Although patterned after GSLP, State and Private Guarantee Agency Programs are not involved in any way (unlike GSLP); strictly federally guaranteed.

- Eligible borrowers:

  - -- US citizen or permanent resident who is full-time student in good standing at eligible school

  - -- has not received other guaranteed or federally insured loan for same year

  - -- no more than 50% of the students in each class in medical, osteopathic, or dental schools may receive loans (unlike GSLP where no limit)

  - -- estimated number of eligible borrowers in 1976-77 would have been 65,000

  - -- 14,000 loans are projected for FY 1979.

- Eligible schools:
  - accredited and met requirements for receipt of a capitaton grant (exception for medical schools which don't meet capitation grant requirements if they increase their 3rd year class by 5% in the 1978-79 academic year)
  - Foreign schools not eligible (unlike GSLP)
- Eligible lenders:
  - health profession schools
  - commercial lenders, including credit unions; State agencies; insurance companies and pension funds
- Loan limitations:
  - up to $10,000 per academic year to an outstanding total of $50,000 (pharmacy students only $7,500 and $37,500) (unlike GSLP which is $5,000 and $15,000)
  - can be used only for educational expenses
- Loan and repayment terms:
  - no Federal interest subsidy (unlike GSLP; assumes health professionals enter highly remunerative fields so unnecessary)
  - maximum interest rate authorized: 12%
  - repayment period: 10-15 years commencing 9-12 months after all formal training (including internship and residency - unlike GSLP)
  - 100% of principal and interest backed by U.S.
  - Default occurs after nonpayment of loan for 120 days where loan repayable in monthly installments (180 days where less frequent installments)

- Federal Payment for Service:
  - -- up to a maximum of $10,000 a year through service in National Health Service Corps or practice in a health manpower shortage area but at option of the Federal Government
  - -- treble damages may be collected from borrowers who breach their contracts
- Penalties and Protections Against Abuse:
  - -- repayment will be carefully monitored
  - -- under law, no discharge of loans by bankruptcy during first 5 years of 10-15 year repayment period
  - -- persons in professional practice who default may have Medicare and Medicaid payments reduced accordingly
- Budget Information:
  - -- FY 1977 supplemental appropriation, $1 million S&E
  - -- FY 1978, Student Loan Insurance Fund, $5 million borrowing authority to cover any deficit in insurance payments over recipts - $1.5 million S&E
  - -- FY 1979, Student Loan Insurance Fund, continuation of $5 million borrowing authority -$1 million S&E
- Regulations. Interim final regulations implementing the HEAL program have recently been signed. This will provide a Federal program of insured loans to graduate students in health professions schools. This program does not expect to encounter problems of student defaults or fraud and abuse, because of the student population being served. The regulations state eligibility requirements and conditions of each loan including, the interest rate, insurance premium and repayment procedures. Major provisions of the regulation are:

-- Students may borrow up to $10,000 per year and a maximum of $50,000 total.

-- Repayment begins 9 months after all formal training has been completed and borrowers may take 10-15 years to repay.

-- To stimulate lender participation, the regulation establishes a maximum interest rate of 12% per annum.

-- Requires the payment of an insurance premium by student borrowers to offset the cost of default claims.

PUBLIC HEALTH SERVICE
Program Supporting Students
Excluding Health Resources Administration

July 24, 1978

| PROGRAM/ORGANIZATION | FY 78 ($000) | FTE EST # OF STUDENTS | FTP POSITIONS | PROGRAM DESCRIPTIONS |
|---|---|---|---|---|
| HEALTH SERVICES ADMINISTRATION | | | | |
| Maternal & Child Health-Training | 24,054 | 1,658 | 3 | The purpose of this program is multidisciplinary training in the care of mothers and children, particularly mentally retarded and multiply-handicapped children. |
| Bureau of Community Health Services | | | | |
| CENTER FOR DISEASE CONTROL | | | | |
| National Institute for Occupational Safety and Health | 3,000 | 1,750 | 15 | These training grants support occupational safety and health training of industrial hygienists, nurses, and safety professionals. |
| NATIONAL INSTITUTES OF HEALTH | | | | |
| National Cancer Institute | 20,163 | 1,526 | 10 | National Research Service Awards (NRSA) are used to support research training. Individual fellowships are made directly to individuals for research training in specified biomedical areas where there is a shortage of research personnel. In addition, institutional fellowship awards are made to institutions which train individuals selected by them. |
| National Heart, Lung, and Blood Institute | 23,597 | 1,518 | 22 | |
| National Institute of Dental Research | 4,198 | 271 | 3 | |
| National Institutes of Arthritis, Metabolism, and Digestive Diseases | 16,777 | 915 | 12 | |
| National Institute of Neurological and and Communicative Disorders and Stroke | 7,322 | 493 | 5 | |
| National Institute of Allergy and Infectious Diseases | 8,323 | 549 | 4 | |
| National Institute of General Medical Sciences | 46,630 | 4,300 | 31 | |
| National Institute of Child Health and Human Development | 9,820 | 681 | 3 | |
| National Institute on Aging | 2,390 | 179 | 2 | |
| National Eye Institute | 4,643 | 215 | 1 | |
| National Institute of Environmental Health Sciences | 4,985 | 383 | 6 | |
| Research Resources | 515 | 32 | 1 | |
| Total, NIH | 149,363 | 11,062 | 100 | |

PUBLIC HEALTH SERVICE
Program Supporting Students
Excluding Health Resources Administration

July 24, 1978

| PROGRAM/ORGANIZATION | FY 78 ($000) | FTE EST # OF STUDENTS | FTP POSITIONS | PROGRAM DESCRIPTIONS |
|---|---|---|---|---|
| ALCOHOL, DRUG ABUSE, AND MENTAL HEALTH ADMINISTRATION........................ | | | | |
| National Institute of Mental Health........ | 84,400 | 8,883 | 116 | The purpose of this program is to increase the number and improve the quality of people working in the areas of mental health and mental illness by training professionals for clinical service and teaching; and by continuing education for existing mental health manpower. |
| National Institute on Drug Abuse........... | 10,000 | 13,978 | 19 | This activity supports training programs for treatment personnel to work with the drug addict or abuser by means of multidisciplinary, short-term and specialized grant and contract programs. |
| National Institute on Alcohol Abuse and Alcoholism........................... | 7,200 | 6,105 | 17 | This activity supports specialized training of personnel who will staff community projects primarily concerned with development and assessment of training models for a wide range of new types of professional personnel in both academic and non-academic settings. |
| Total, ADAMHA | 101,600 | 28,966 | 152 | |
| Total, PHS (Excludes HRA) | 278,017 | 43,436 | 270 | |

DESCRIPTION OF THE TITLE IV PROGRAMS

| PROGRAM | TYPE OF AID | STUDENT ELIGIBILITY | AWARD LEVELS IN 1977-78 | APPLICATION PROCESS | AWARD PROCESS | BENEFICIARIES | INSTITUTIONS ELIGIBLE OR PARTICIPATING |
|---|---|---|---|---|---|---|---|
| SSIG | grant | undergraduates, enrolled on at least a half-time basis at an eligible institution (same as BEOG) who have "substantial financial need" (which is defined by the individual states and approved by USOE.) | $1500 maximum, of which at least half the funds must come from the state. | Student applies to state agency in his or her state of residence. | Available federal funds are disbursed to states according to statutory formula (based on enrollment), and must be matched by the state and represent additional expenditures over a base year. | In 1974-75, students attending public institutions accounted for 60% of the recipients. 44% of the funds, students at private colleges and universities 19% and 51% respectively. In 1976, 176,000 students received SSIG awards. | All states have now established eligible state, grant programs. |
| CW-S | federally subsidized part-time employment | undergraduate, graduate, vocational and professional school students, enrolled on at least a half-time basis at participating institutions who have "great financial need". | No specific limits. Amounts are limited by amount of students' need, institutional rate of pay and number of hours available to work. | Same as SEOG--institutions apply annually, using Tripartite Application. Requests are reviewed by regional panels who recommend the institutional level of funding. | Like SEOG, appropriations are distributed to the states based upon a legislatively mandated formula (using different criteria than SEOG). Institutional financial aid officers make actual awards. | In 1976-77 an estimated 973,000 students were aided with average earnings (including non-federal share) of $520. In 1975-76, public institutions received 43% of the funds, private non-profit institutions 43%, and proprietary institutions 12%. 94% of funds went to undergraduates, 6% to post-baccalaureate students. Program serves middle-income ($10-20,000) students to a greater degree than BEOG, SEOG. | 3215 institution participated in 1976. Approximately 6000 are eligible. Average institutional award was $123,000. |

## TABLE THREE

## STATUS OF ADMINISTRATIVE FUNDS ($000) AS OF APRIL 30, 1978

% FY Elapsed: 65.4 Date: 6/9/78

| NTRAL OFFICE/REGIONS | Current Mo. Obligations | Current Quarter Obligations | Current Quarter Allocation | Current Quarter % Oblig. | Fiscal Year to Date/Annual Alloc. Obligations | Fiscal Year to Date/Annual Alloc. Annual Alloc. | Fiscal Year to Date/Annual Alloc. % Oblig. |
|---|---|---|---|---|---|---|---|
| LLABLE | | | | | | | |
| NTRAL OFFICE Prior to Reorg. (12/5) | (18.5) | (21.2) | | | 57.5 | 76.0 | 75.7 |
| of the Deputy Commissioner | 39.2 | 87.5 | | | 233.2 | 403.5 | .57.8 |
| f Policy & Program Development | 46.7 | 59.3 | | | 135.5 | 290.3 | 46.7 |
| ification & Program Review | 23.8 | 31.4 | | | 76.8 | 108.0 | 71.1 |
| ems Design & Development | 18.7 | 22.8 | | | 51.5 | 112.5 | 45.7 |
| ning & Dissemination | 253.9 | 257.6 | | | 305.9 | 587.0 | 52.1 |
| liance | [illegible] | 39.9 | | | 158.6 | 232.8 | 68.1 |
| ram Operations | 93.9 | 154.8 | | | 361.7 | 523.9 | 69.4 |
| ity Assurance | .6 | .6 | | | 3.4 | 112.4 | 3.0 |
| - CENTRAL OFFICE | 495.1 | 632.7 | 1096.1 | 57.7 | 1384.1 | 2451.7 | 56.5 |
| GIONAL OFFICES | | | | | | | |
| - Boston | 12.1 | 37.1 | 75.0 | 49.5 | 100.6 | 176.0 | 57.2 |
| - New York | 15.8 | 43.7 | 97.2 | 45.0 | 153.0 | 258.0 | 59.3 |
| - Philadelphia | 12.1 | 38.0 | 95.0 | 40.0 | 120.2 | 248.3 | 48.4 |
| - Atlanta | 179.3 | 219.1 | 229.6 | 95.4 | 363.9 | 467.9 | 77.8 |
| - Chicago | 91.2 | 119.6 | 303.0 | 39.5 | 424.2 | 699.9 | 60.6 |
| - Dallas | 72.4 | 158.2 | 308.0 | 51.4 | 421.6 | 701.6 | 60.1 |
| - Kansas City | 13.1 | 31.9 | 172.4 | 18.5 | 94.6 | 233.4 | 40.5 |
| - Denver | 14.4 | 43.5 | 108.7 | 40.0 | 140.0 | 261.8 | 53.5 |
| - San Francisco | 96.2 | 109.8 | 296.0 | 37.1 | 518.2 | 624.2 | 83.0 |
| - Seattle | 6.7 | 18.7 | 92.5 | 20.2 | 79.0 | 156.1 | 50.6 |
| - REGIONAL OFFICES | (2)513.3 | (2)819.6 | 1777.4 | 46.1 | (2)2415.3 | 3827.2 | 63.1 |
| - BSFA CONTROLLABLE (S&E) | 1008.4 | 1452.3 | 2873.5 | 50.5 | 3799.4 | (1)6278.9 | 60.5 |
| nel Costs | | | | | | | |
| Central Office | 569.0 | 1076.5 | 1572.6 | 68.5 | 4979.1 | 7898.0 | 63.0 |
| Regional Offices | 742.7 | 1343.3 | 2300.9 | 58.4 | 4606.2 | 7250.9 | 63.5 |
| Personnel Costs (S&E) | 1311.7 | 2419.8 | 3873.5 | 62.5 | 9585.3 | (1)15148.9 | 63.3 |
| E) | 364.6 | 1898.5 | 1810.0 | 104.9 | (3) 5192.9 | 6743.2 | 77.0 |
| | | | | | | | |
| & Abuse Reprogramming | 253.6 | 310.2 | 463.8 | 66.9 | (4) 881.8 | 1499.1 | 58.8 |
| Admin. Setaside | 415.0 | 1248.6 | 4571.4 | 27.3 | 13591.8 | 21486.0 | 63.3 |
| - BSFA OTHER | 2344.9 | 5877.1 | 10718.7 | 54.8 | 29251.8 | 44677.2 | 65.5 |
| BSFA - (CONTROLLABLE & OTHER) | 3353.3 | 7329.4 | 13592.2 | 53.9 | 33051.2 | 51156.1 | 64.6 |

**REMARKS**

(1) S&E - reflects currentl approved operating plan levels. Add'l reqsts pending Pierce's review and approval.

(2) Regional Accounting System (RAS) reported data verifications/corrections reflected by Regional Offices - 6/9/78.

(3) ADP - Excludes ($1842.7 funds obligated in FY '77 for use in FY '78 for On-Line Systems and other contracts.

(4) Fraud & Abuse Reprogramming Includes outstanding OIG Reimbursement Request ($68.3

## Selected Program Statistics
## National Direct Student Loan Program

| | FY 74 | FY 75 | FY 76 Est. | FY 77 Est. | FY 78 Est. |
|---|---|---|---|---|---|
| Appropriations (000's) | $298,000 | $329,440 | $331,960 | $323,220 | $325,660 |
| FCC | 286,000 | 321,000 | 321,000 | 310,500 | 310,500 |
| Loans to Institutions | 2,000 | 2,000 | 2,000 | 800 | - |
| Cancellation of Student Loans | 10,000 | 6,440 | 8,960 | 11,920 | 15,160 |
| Student Recipients | 690,000 | 799,000 | 834,000 | 831,000 | 853,000 |
| Average Loan (based on total loan fund) | $ 682 | $ 690 | $ 690 | $ 700 | $ 710 |
| Total Funds Available for Loans (in $000) | $470,725 | $551,327 | $575,600 | $581,600 | $605,600 |
| Number of Institutions Participating | 2985 | 3167 | 3300 | 3350 | 3400 |
| Collections (in $000) | $190,000 | $215,000 | $240,000 | $265,000 | $290,000 |

Note: Program is 1 year forward funded, i.e. funds appropriated during a fiscal year are awarded to students the following school year.

## National Direct Student Loan Program

### STATUS OF DEFAULTS AS OF JUNE 30, 1977

### TYPE AND CONTROL OF INSTITUTIONS

| TYPE AND CONTROL | NO. OF SCHOOLS | NO. OF STUDENTS IN DEFAULT | PRINCIPAL OUTSTANDING IN DEFAULT | MATURED PRINCIPAL | DEFAULT RATE |
|---|---|---|---|---|---|
| PUBLIC | 1,055 | 429,708 | $321,650,204 | $1,846,669,555 | 17.42% |
| UNIVERSITY | 350 | 264,503 | $229,914,937 | $1,458,083,344 | 15.77% |
| OTHER FOUR YEAR | 164 | 66,130 | $ 45,287,191 | $ 249,249,837 | 18.17% |
| TWO YEAR | 507 | 96,576 | $ 45,202,594 | $ 135,393,638 | 33.39% |
| AREA-VOCATIONAL | 34 | 2,499 | $ 1,245,482 | $ 3,942,736 | 31.59% |
| PRIVATE | 1,216 | 259,070 | $241,878,165 | $1,542,357,894 | 15.68% |
| UNIVERSITY | 356 | 107,079 | $118,361,596 | $ 819,863,129 | 14.44% |
| OTHER FOUR YEAR | 683 | 131,220 | $112,401,212 | $ 674,397,186 | 16.67% |
| TWO YEAR | 177 | 20,771 | $ 11,115,357 | $ 48,097,579 | 23.11% |
| PROPRIETARY | 748 | 24,503 | $ 18,067,239 | $ 61,347,139 | 29.45% |
| TOTAL | 3,019 | 713,281 | $581,595,608 | $3,450,374,588 | 16.86% |

## GUARANTEE STUDENT LOAN PROGRAM

## LOAN DISBURSEMENTS

## CUMULATIVE SINCE 1965 THRU FY-77

| | No. of Loans | Amount | Average Loan |
|---|---|---|---|
| GUARANTEE AGENCY | 5,759,509 | $6,484,000,000 | 1,126 |
| FISLP | 4,114,161 | $4,754,000,000 | 1,156 |
| TOTAL | 9,873,670 | $11,238,000,000 | 1,138 |

SUMMARY: 9.9 million loans for $11.2 billion.

## TABLE NINE

## SELECTED PROGRAM STATISTICS, GUARANTEED STUDENT LOAN PROGRAM

| | FY-1974 | FY-1975 | FY-1976* | FY-1977 | FY-1978 |
|---|---|---|---|---|---|
| **FUNDING** | | | | | |
| Appropriation (000's) | $398,668 | $594,200 | $807,787 | $357,312 | $519,815 |
| Subsidies/Related Costs | 310,000 | 382,400 | 576,000 | 325,000 | 270,698 |
| Defaults/Related Costs | 88,668 | 166,800 | 231,787 | 32,312 | 209,117 |
| Borrowing Authority | - | - | - | - | 40,000 |
| Obligations | $ 422,321 | $464,163 | $560,889 | $538,996 | $788,847 |
| Subsidies/Related Costs | 310,145 | 339,976 | 355,174 | 356,790 | 571,548 |
| Default/Related Costs | 112,176 | 124,187 | 205,715 | 182,206 | 217,299 |
| **LOAN VOLUME** | | | | | |
| Annual Disbursements (000's) | $ 982,000 | $1,208,000 | $1,735,000 | $1,470,000 | $1,648,000 |
| Federal | 533,000 | 589,000 | 670,000 | 457,000 | 317,000 |
| Guarantee Agency | 449,000 | 619,000 | 1,065,000 | 1,013,000 | 1,331,000 |
| Average Loan-Total Program | $ 1,063 | $ 1,315 | $ 1,436 | $ 1,562 | $ 1,675 |
| Cumulative Disbursements (000's) | $6,825,000 | $8,033,000 | $9,768,000 | $11,238,000 | $12,824,000 |
| Federal | 3,038,000 | 3,627,000 | 4,2[illegible]7,000 | 4,754,000 | 5,031,000 |
| Guarantee Agency | 3,787,000 | 4,406,000 | 5,4[illegible]1,000 | 6,484,000 | 7,793,000 |
| Number of Borrowers (000's) | 924 | 919 | 1,208 | 941 | 984 |
| Federal | 507 | 449 | 450 | 294 | 204 |
| Guarantee Agency | 417 | 470 | 758 | 647 | 780 |
| **CLAIMS & COLLECTIONS** | | | | | |
| Cumulative Claims Paid (000's) | $ 209,146 | $ 438,067 | $ 648,070 | $ 867,083 | $ 1,084,101 |
| Federal | 121,093 | 238,384 | 349,440 | 475,688 | 590,682 |
| Guarantee Agency | 88,053 | 199,683 | 298,630 | 391,395 | 493,419 |
| Cumulative Collections Rec'd (000's) | $14,529 | $24,924 | $41,934 | $61,702 | $ 83,647 |
| Federal | 7,781 | 14,497 | 24,371 | 33,801 | 44,374 |
| Guarantee Agency | 6,748 | 10,427 | 17,563 | 27,901 | 39,273 |

*15 month period

## TABLE TEN

## CLAIMS STATUS, GUARANTEED STUDENT LOAN PROGRAM (Dollars in Thoussnds)

| | FY 1975 | FY 1976 | FY 1977#1 | FY 1978 |
|---|---|---|---|---|
| **FEDERAL INSURED STUDENT LOAN PROGRAM:** | | | | |
| CUMULATIVE MATURED LOANS | 2,009,000 | 2,852,000 | 3,409,000 | 3,920,025 |
| CUMULATIVE DEFAULT | 218,523 | 320,197 | 436,835 | 547,579 |
| CUMULATIVE BANKRUPCY | 12,135 | 19,192 | 25,691 | 27,216 |
| CUMULATIVE DEATH & DISABILITY | 7,726 | 10,051 | 13,162 | 15,887 |
| CUMULATIVE CLAIMS | 238,384 | 349,440 | 475,688 | 590,682 |
| DEFAULT PERCENTAGE | 10.5 | 11.2 | 12.8 | 13.9 |
| BANKRUPCY PERCENTAGE | .6 | .7 | .8 | .7 |
| DEATH & DISABILITY PERCENTAGE | .4 | .4 | .4 | .4 |
| CLAIMS PERCENTAGE | 11.5 | 12.3 | 14.0 | 15.0 |
| **GUARANTEE AGENCY PROGRAM:** | | | | |
| CUMULATIVE MATURED LOANS | 2,726,000 | 3,613,000 | 4,341,000 | 5,186,473 |
| CUMULATIVE DEFAULT | 183,593 | 275,481 | 361,042 | 459,404 |
| CUMULATIVE BANKRUPCY | 6,802 | 11,523 | 16,772 | 18,180 |
| CUMULATIVE DEATH & DISABILITY | 9,208 | 11,626 | 13,581 | 15,835 |
| CUMULATIVE CLAIMS | 199,603 | 298,630 | 391,395 | 493,419 |
| DEFAULT PERCENTAGE 1/ | 6.7 | 7.6 | 8.3 | 8.9 |
| BANKRUPCY PERCENTAGE | .2 | .3 | .4 | .4 |
| DEATH & DISABILITY PERCENTAGE | .3 | .3 | .3 | .3 |
| CLAIMS PERCENTAGE | 7.3 | 8.2 | 9.0 | 9.6 |
| **TOTAL PROGRAM:** | | | | |
| CUMULATIVE MATURED LOANS | 4,815,000 | 6,465,000 | 7,750,000 | 9,114,498 |
| CUMULATIVE DEFAULT CLAIMS | 402,116 | 595,678 | 797,877 | 1,006,983 |
| CUMULATIVE BANKRUPTCY | 18,937 | 30,715 | 42,46[illegible] | 45,396 |
| CUMULATIVE DEATH & DISABILITY | 17,014 | 21,677 | 26,7[illegible] | 31,722 |
| CUMULATIVE CLAIMS | 438,067 | 648,070 | 867,083 | 1,084,101 |
| DEFAULT PERCENTAGES | 8.4 | 9.2 | 10.3 | 11.0 |
| BANKRUPTCY PERCENTAGE | .4 | .5 | .5 | .5 |
| DEATH & DISABILITY PERCENTAGE | .4 | .3 | .3 | .3 |
| CLAIMS PERCENTAGE | 9.2 | 10.0 | 11.1 | 11.8 |

#1 CLAIMS STATUS IS NOT EFFECTED BY RECOVERIES MADE ON ADVANCES ON INSURED LOANS.

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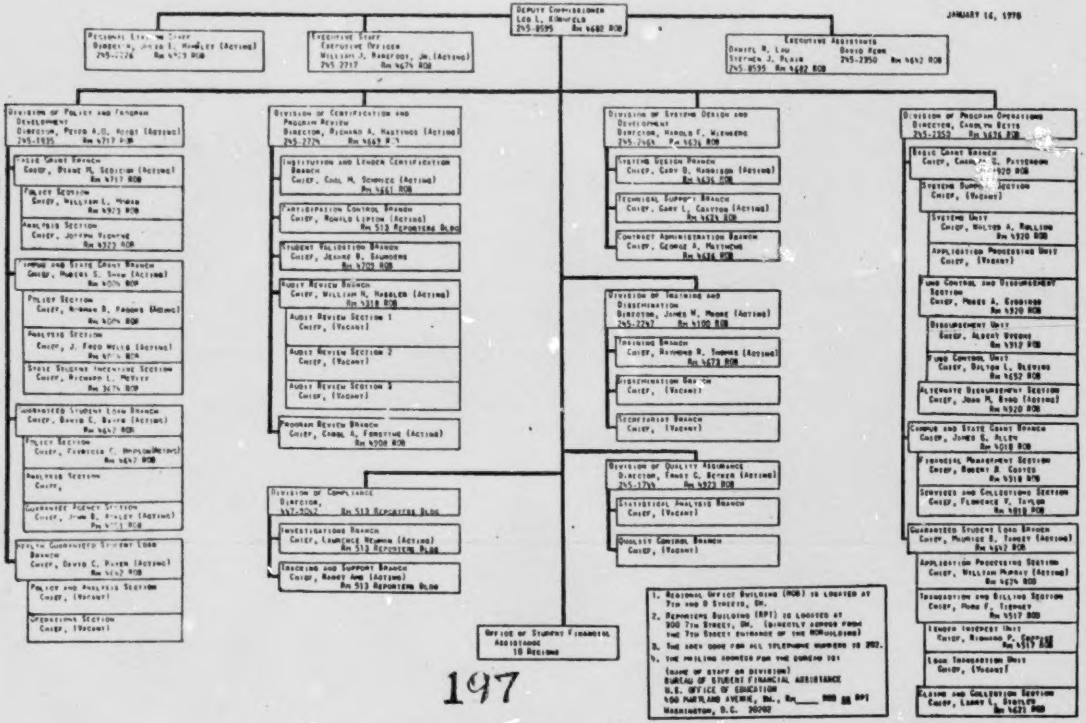
1/ These default rates were derived using the Reseach Data Base plus additional adjustments provided by OE Finance, therefore these rates do not correspond with the default rates shown on the G.A. Default Rate Table.

# BUREAU OF STUDENT FINANCIAL ASSISTANCE

JANUARY 16, 1978


Deputy Commissioner
Leo L. Kornfeld
245-0595 Rm 4682 ROB
Regional Liaison Staff
Director, Anita L. Handley (Acting)
245-2226 Rm [illegible] ROB
Executive Staff
Executive Officer
William J. Barefoot, Jr. (Acting)
245-2717 Rm 4674 ROB
Executive Assistants
Daniel R. Lau
Stephen J. Blair
245-0595 Rm 4682 ROB
David Kern
245-2350 Rm 4642 ROB
Division of Policy and Program Development
Director, Peter A.G. Voigt (Acting)
245-1935 Rm 4717 ROB
Basic Grant Branch
Chief, Diane M. Sedicum (Acting)
Rm 4717 ROB
Policy Section
Chief, William L. Moran
Rm 4923 ROB
Analysis Section
Chief, Joseph Vignone
Rm 4923 ROB
Campus and State Grant Branch
Chief, Robert S. Shaw (Acting)
Rm 4074 ROB
Policy Section
Chief, Norman B. Brooks (Acting)
Rm 4074 ROB
Analysis Section
Chief, J. Fred Wells (Acting)
Rm 4074 ROB
State Student Incentive Section
Chief, Richard L. McVity
Rm 3674 ROB
Guaranteed Student Loan Branch
Chief, David C. Bayer (Acting)
Rm 4642 ROB
Policy Section
Chief, Patricia C. Hodson (Acting)
Rm 4642 ROB
Analysis Section
Chief,
Guarantee Agency Section
Chief, John B. Ashley (Acting)
Rm [illegible] ROB
Health Guaranteed Student Loan Branch
Chief, David C. Bayer (Acting)
Rm 4642 ROB
Policy and Analysis Section
Chief, (Vacant)
Operations Section
Chief, (Vacant)
Division of Certification and Program Review
Director, Richard A. Hastings (Acting)
245-2774 Rm 4669 ROB
Institution and Lender Certification Branch
Chief, Carl M. Schmiec (Acting)
Rm 4661 ROB
Participation Control Branch
Chief, Ronald Lipton (Acting)
Rm 513 Reporters Bldg
Student Validation Branch
Chief, Jeanne B. Saunders
Rm 4709 ROB
Audit Review Branch
Chief, William R. Hassler (Acting)
Rm 4318 ROB
Audit Review Section 1
Chief, (Vacant)
Audit Review Section 2
Chief, (Vacant)
Audit Review Section 3
Chief, (Vacant)
Program Review Branch
Chief, Carol A. Forsythe (Acting)
Rm 4906 ROB
Division of Compliance
Director,
447-9042 Rm 513 Reporters Bldg
Investigations Branch
Chief, Lawrence Newman (Acting)
Rm 513 Reporters Bldg
Tracking and Support Branch
Chief, Nancy Amo (Acting)
Rm 513 Reporters Bldg
Office of Student Financial Assistance
10 Regions
Division of Systems Design and Development
Director, Harold F. Wisnewski
245-2464 Rm 4636 ROB
Systems Design Branch
Chief, Gary D. Harrison (Acting)
Rm 4636 ROB
Technical Support Branch
Chief, Gary L. Clayton (Acting)
Rm 4624 ROB
Contract Administration Branch
Chief, George A. Matthews
Rm 4636 ROB
Division of Training and Dissemination
Director, James W. Moore (Acting)
245-2247 Rm 4100 ROB
Training Branch
Chief, Raymond R. Thomas (Acting)
Rm 4673 ROB
Dissemination Branch
Chief, (Vacant)
Secretariat Branch
Chief, (Vacant)
Division of Quality Assurance
Director, Fanny C. Becker (Acting)
245-1755 Rm 4923 ROB
Statistical Analysis Branch
Chief, (Vacant)
Quality Control Branch
Chief, (Vacant)
Division of Program Operations
Director, Carolyn Betts
245-2350 Rm 4626 ROB
Basic Grant Branch
Chief, Charles E. Pattengill
Rm 4920 ROB
Systems Support Section
Chief, (Vacant)
Systems Unit
Chief, Walter A. Rollins
Rm 4920 ROB
Application Processing Unit
Chief, (Vacant)
Fund Control and Disbursement Section
Chief, Moses A. Gibbons
Rm 4920 ROB
Disbursement Unit
Chief, Albert Greene
Rm 4912 ROB
Fund Control Unit
Chief, Dalton L. Blevins
Rm 4652 ROB
Alternate Disbursement Section
Chief, Joan M. Byrd (Acting)
Rm 4920 ROB
Campus and State Grant Branch
Chief, James E. Allen
Rm 4018 ROB
Financial Management Section
Chief, Robert B. Coates
Rm 4918 ROB
Services and Collections Section
Chief, Florence V. Taylor
Rm 4018 ROB
Guaranteed Student Loan Branch
Chief, Maurice E. Tansey (Acting)
Rm 4642 ROB
Application Processing Section
Chief, William Murray (Acting)
Rm 4624 ROB
Transaction and Billing Section
Chief, Mona F. Tierney
Rm 4517 ROB
Lender Interest Unit
Chief, Richard P. Coffey
Rm 4517 ROB
Loan Transaction Unit
Chief, (Vacant)
Claims and Collection Section
Chief, Larry L. Stoller
Rm 4621 ROB

1. Regional Office Building (ROB) is located at 7th and D Streets, SW.
2. Reporters Building (RPT) is located at 300 7th Street, SW. (directly across from the 7th Street entrance of the ROBuilding)
3. The area code for all telephone numbers is 202.
4. The mailing address for the Bureau is:

(Name of staff or division)
Bureau of Student Financial Assistance
U.S. Office of Education
400 Maryland Avenue, SW., Rm____ ROB or RPT
Washington, D.C. 20202

## Program Review Priority Determination Factors

| Factor | Value |
|---|---|
| 1. Average BEOG scheduled award is 20% or more over mean for that type of institution | 4 |
| 2. Percentage of BEOG recipients > 80% of total enrollment | 3 |
| 3. No BEOG recoveries for past year | 4 |
| 4. Non-response on June Progress Report | 3 |
| 5. Deobligated more than 20% of current BEOG authorization | 2 |
| 6. For 10% or more of recipients enrollment date is January 1 or later; BEOG expected disbursement = Scheduled Award | 5 |
| 7. Late or non-response on Fisc-Op report | 2 |
| 8. Poorly prepared Fisc-Op report | 3 |
| 9. Poorly prepared Tri-Partite application | 3 |
| 10. Non-response on NDSL Default Report (Form 574) | 3 |
| 11. NDSL default rate ≥ 31% | 5 |
| 12. Delinquent 207 (NDSL ICC) loan | 4 |
| 13. High GSL default rate | 4 |
| 14. Audit exceptions in SFA management | 3 to 5 |
| 15. Eligibility actions (terminations, etc.) | 2 to 4 |
| 16. 5 or more student complaints received | 3 |
| 17. Delinquent Higher Education Facilities Loan | 2 |
| 18. Referral from FBI, OI, HEWAA, Regions, and Division of Compliance | 4 |

## Appendix 2.—Chronology of HEW Steps To Improve Management and Operation of Student Financial Aid Programs

### I. PROBLEMS FACED ON JANUARY 20, 1977

#### A. Problems Common to All Student Assistance Programs

- Fragmentation of administration within the Office of Education and lack of management of the ten regions by Headquarters in Washington.
- No fiscal or administrative standards for institutions entering or participating in the student assistance programs.
- Inadequate review and monitoring by the Office of Education of program operations

  -- by educational institutions

  -- by lenders
- Inadequate training of institutional financial aid and fiscal officers.
- Infrequent audits of institutions (fewer than 1,000 of the 8,000 institutions participating in the student assistance programs were independently audited each year).
- No regulations outlining requirements for institutions or lenders to provide consumer information to students.
- Lack of aggressive action against schools which were engaging in allegedly fraudulent practices.

- Lack of coordination among Federal, State, and institutional aid programs made it possible for students to receive aid amounting to more than 100% of actual education costs.

B. Problems in the Guaranteed Student Loan Program (GSL)

- There were more than 300,000 loans in default involving more than $300 million, and a default rate of 13%.
- There was no effective billing system; the vast majority of defaulters were never regularly billed by the Federal Government.
- Cases were only sporadically referred to the U.S. Attorneys for litigation by the Office of Education.
- The Office of Education, which guarantees the loans under this program, was taking up to two years to process claims from lenders when defaults occurred.
- Some lenders were not making thorough and aggressive efforts to collect delinquent loans ("due diligence") before filing default claims with the Federal Government.

C. Problems in the campus-based National Direct Student Loan Program (NDSL)

- An estimated 700,000 loans in default as of January 1977 involving $600 million in unpaid principal, and a default rate approaching 20%.
- OE had not developed procedures for accepting from institutions the assignment of loans in default more than two years, as provided in the Education Amendments of 1972.
- Many institutions had done little or nothing to bill and collect loans; the Office of Education had done little to monitor their performance.
- OE was not limiting payments to institutions to the amounts necessary for the next 30 days, as required; consequently, some institutions had more Federal funds on hand than necessary to operate the program.

### D. Problems in the Basic Educational Opportunity Grant (BEOG) Program

- Although there was evidence that some applicants were submitting false information in order to meet eligibility criteria or to receive awards higher than their entitlement, only minimal action had been taken to detect such applications.

- If applications contained blanks or inconsistent data, they were often processed on the basis of assumptions.

- Virtuallly none of the information supplied on BEOG applications was being verified before grants were awarded.

- Applicants were burdened with duplicative paperwork.

NOTE: This chronology focuses on only three of the programs -- BEOG, NDSL, and GSL -- because of their magnitude and central importance in providing access to postsecondary education.

## II. ACTIONS TAKEN SINCE JANUARY 20, 1977: ALL PROGRAMS

PROBLEM: FRAGMENTATION OF ADMINISTRATION

ACTION:

- We reorganized HEW and the Office of Education. — March 1977 and May 1977
  - -- All student aid programs placed in one organizational unit, the Bureau of Student Financial Assistance.
  - -- Headquarters given direct control over regional offices.

- Leo Kornfeld, an education finance and computer systems expert, assumed new position of Deputy Commissioner for Student Financial Assistance. — August 1977

- We reorganized the Bureau of Student Financial Assistance along functional lines. December 1977
    - -- Division of Certification and Program Review established to conduct periodic program reviews, reviews of audit findings, and implement limit, suspend, and terminate authority.
    - -- Division of Compliance established to follow up program review and audit findings, investigate problem institutions, identify fraud and abuse, and conduct cooperative activities with the HEW Inspector General and the Department of Justice.

PROBLEM: NO FISCAL OR ADMINISTRATIVE STANDARDS

ACTION:

- We published final regulations outlining procedures to limit, suspend, or terminate institutions' participation in student aid programs. December 1977
- We issued proposed regulations containing standards for administrative capacity and fiscal responsibility. July 1978
    - -- All institutions applying to participate in these programs must be certified.
    - -- All institutions currently participating will be reviewed and certified over the next three years.

PROBLEM: INADEQUATE REVIEW OF INSTITUTIONS

ACTION:

- We initiated comprehensive reviews of program administration by institutions. Priorities based on high default rates and other indicators. February 1978

- We established single comprehensive agreements between OE and participating institutions spelling out institutional responsibilities. July 1978

**PROBLEM:** LACK OF ACTION AGAINST INSTITUTIONAL FRAUD

**ACTION:**

- Office of Inspector General (OIG) and BSFA intensified efforts to clean up backlog of pending investigations of fraud and abuse.
  - -- We submitted an FY 1978 request to the Congress for a supplemental appropriation to support 20 additional OIG investigators for student financial assistance programs. January 1978
  - -- Bureau of Student Financial Assistance provided funds to OIG to support six additional investigators to work on student aid case backlog. January 1978

**PROBLEM:** INFREQUENT AUDITS

**ACTION:**

- Audits of the 8,000 participating institutions increased from 1,000 per year to a rate of 4,000 per year.
  - -- We published proposed regulations requiring independent audits of each participating institution to be conducted at least every two years. April and May 1978
  - -- BSFA audit review staff increased to assure prompt action on audit findings.
  - -- Audit guide for BEOG program revised and published. (NDSL Guide expected in August.) July 1978

**PROBLEM:** INADEQUATE STUDENT INFORMATION

**ACTION:**

| | |
|---|---|
| • We published regulations providing for student consumer information services. Institutions required to provide (on request) students with a statement of rights and responsibilities, and information on loan terms and repayment schedules. | December 1977 |
| • We requested in the FY 1979 budget administrative allowances authorized by Education Amendments of 1976 for institutions participating in GSL and BEOG programs to cover costs of student information requirements. | January 1978 |
| • We published a "Student Guide" to provide students with information on aid programs, with emphasis on their rights and responsibilities. | March 1978 |

**PROBLEM:** INADEQUATE TRAINING OF SCHOOL OFFICIALS

**ACTION:**

| | |
|---|---|
| • We increased training for institutional fiscal and financial aid officers. During the 1977-78 academic year, more than 500 workshops and training sessions have been held with more than 20,000 individuals attending. | April-<br>June 1978 |
| • We revised and expanded a handbook for institutional financial aid and fiscal officers on correct program administration. | July 1977 |

FUTURE STEPS:

- We will conduct a series of meetings with institution presidents and chief fiscal officers to emphasize the need to improve the administration of student financial assistance programs and to provide guidance on new procedures. Special meetings will be held with proprietary schools and developing institutions.

- We will hold special workshops at the Department's National Conference in December 1978 on Fraud, Abuse, and Error.

- We will crack down on fraud and abuse by problem schools, with special emphasis on proprietary schools.

  -- First stage will focus on the beauty school industry -- approximately 800 schools.

  -- Second stage will apply techniques developed in beauty school investigation to other types of institutions.

- We shall take steps to develop a three-point program to ensure that no recipient of Federal financial aid receives more than 100 percent of actual cost of education.

  -- We will work with relevant agencies to develop an overall policy for dealing with benefits from all programs (e.g., VA, CETA, BEOG).

  -- We will contact States and institutions to work out ways to integrate and coordinate institutional, State and Federal aid.

  -- The Office of Education will work with higher education institutions to improve the status and quality of student financial aid officers.

## III. ACTIONS TAKEN: GUARANTEED STUDENT LOAN PROGRAM

**PROBLEM:** OVER 300,000 LOANS IN DEFAULT

**ACTION:**

- We initiated Operation Cross-Check:
  - -- Phase I matched student default list with HEW employee payroll. Over one-half of the current HEW employees identified have repaid or are making payments. Follow-up action continues for the remainder. — October 1977
  - -- Phase II matched the student default list with all Federal civilian employees. To date, of 6,600 individuals identified, 893 have either paid, begun repayment, or had debts written off (i.e., amounts less than $25; cases of institutional fraud where there is no obligation to repay). Follow-up action continues. — February 1978
  - -- Phase III. Routine use under Privacy Act to be published to extend match to all Federal military personnel.
- We obtained the latest address of all defaulted borrowers from the Internal Revenue Service. — March 1978
- We sent letters announcing the Government's intention to collect to virtually all student defaulters. — March 1978
- We issued an RFP to contract with collection agencies on a pilot basis in two regions to test effectiveness of private agencies in collection of loans. — July 1978
- Congressional approval of request to reprogram funds to increase number of Federal collectors, to improve computer support, and to train financial aid officers. — July 1978
- We published proposed regulations requiring equitable refund policies at all institutions participating in GSL. — July 1978

- Federal collectors are now converting defaulted accounts to repayment at a rate of 1200 per week--more than four times the rate a year ago. During the last quarter:
  - -- $4.5 million was collected on defaulted loans, two times the amount collected for the same quarter in FY 1976 and 1977.
  - -- Approximately 15,000 defaulters have begun repayment or fulfilled their obligations, one and one-half times the total for all of FY 1977.

PROBLEM: INEFFECTIVE BILLING SYSTEM

ACTION:

- We installed a computerized billing system in all regions. May 1978

PROBLEM: CASES NOT REFERRED TO U.S. ATTORNEYS

ACTION:

- OE stepped up referrals of civil cases to U.S. Attorneys. In the last nine months, over 1,500 cases have been referred, compared to a total of 500 over the previous 5 years. November 1977
- At the request of Secretary Califano, Attorney General Bell agreed to cooperate with HEW in handling the increased number of cases referred to the Justice Department for litigation. April 1978

PROBLEM: OE DELAY IN PROCESSING OF LENDER CLAIMS

ACTION:

- We initiated efforts to reduce time between banks' filing of claims for defaulted loans and HEW payment on its guarantee. As of June 30, 1978, processing time had been decreased from as long as two years to an average of 30 days. February 1978

PROBLEM: LENDERS NOT EXERCISING DUE DILIGENCE

ACTION:

- We published proposed regulations defining responsibilities of lenders in taking thorough and aggressive action in servicing and collecting loans. April 1978
- We initiated a pilot program in pre-claims assistance to lenders in San Francisco Region. The purpose of the project is to help lenders bring their delinquent accounts into repayment status so that they do not become default claims against the government. June 1978

FUTURE STEPS:

- Expand San Francisco pre-claims assistance project nationwide.
- Extend Operation Cross-Check to match GSL default file with military payroll.
- Consider additional ways of obtaining current addresses of defaulters.
- Eliminate entire ten-year backlog of unworked GSL defaults within three years.

## IV. ACTIONS TAKEN: NATIONAL DIRECT STUDENT LOAN PROGRAM

PROBLEM: 700,000 LOANS IN DEFAULT

ACTION:

- We required schools to submit data on default rates. July 1977

- We sent a letter to presidents of all participating institutions explaining procedures for calculating defaults and need for due diligence in collecting loans. March 1978
  - -- Where institutions fail to meet due diligence requirements, HEW will take action to limit, suspend, or terminate participation.
- We implemented provision of the Education Amendments of 1972 that enables institutions to assign to the Office of Education loan notes in default for more than two years. As of July 1978, requests for 100,000 assignment forms received from 500 schools. April 1978
- OE contacted schools in the Developing Institutions program with high default rates offering technical assistance and encouraging them to use program funds to improve student financial aid administration. April 1978

PROBLEM: EXCESS CASH ON HAND AT PARTICIPATING INSTITUTIONS

ACTION:

- We sent a letter to institutions explaining their obligation to withdraw from the government only those funds needed for loan operations during the next 30 days. April 1978
- We built a requirement for a cash flow analysis into the revision of the NDSL HEW Audit Guide. (To be published in August.)

FUTURE STEPS:

- Beginning in academic year 1979-80, we shall take steps to reduce Federal contributions to institutions with high NDSL default rates that do not show improvement. Proposed regulations being drafted.

## V. ACTIONS TAKEN: BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAM

**PROBLEM:** NO VERIFICATION OF APPLICATION DATA

**ACTION:**

| | |
|---|---|
| • BSFA instituted rigorous computer screening of new and resubmitted 1978-79 Basic Grant applications; additional data required from applicants when data is not supplied or is inconsistent. | February 1978 |
| -- Thirty percent of 1978-79 applications returned to applicants for additional information. | |
| • Began selection of 200,000 applications for intensive scrutiny (validation). Applicants will be required to substantiate every questionable item. | February 1978 |
| -- Validation training manuals distributed to all institutions eligible for BEOG program. | March 1978 |

**PROBLEM:** SUBMISSION OF FALSE INFORMATION ON BEOG APPLICATIONS

**ACTION:**

| | |
|---|---|
| • We conducted computer matches to detect recipients of multiple BEOG grants. | July 1978 |
| • We conducted computer matches to assure that BEOG applications contain accurate information concerning benefits received under other Federal programs, including:<br>-- VA benefits<br>-- SSA benefits<br>-- AFDC benefits | July 1978 |
| • We initiated computer matches to detect BEOG applicants who are in default on GSL loans. | July 1978 |

**PROBLEM:** DUPLICATE PAPERWORK

**ACTION:**

- We entered agreements with American College Testing Service and other needs analysis services which allowed BSFA to reduce paperwork to students so that 70% of BEOG applicants do not have to fill out a Federal form. Previously, applicants were required to provide the same information on both a BEOG application and applications for other assistance.

August 1977

**FUTURE STEPS:**

- Anticipate making legislative proposals to prevent students who default on NDSL or GSL loans from receiving BEOG grants at any school.
- Anticipate making VA, SSA, AFDC, GSL matches a routine part of BEOG application screening procedures.
- A major quality control study of the BEOGs program to assure integrity from the beginning of the application process to the disbursement of grant awards.
- Anticipate making matches to prevent multiple BEOGs grants a routine procedure.

# APPENDIX 3.—QUESTIONS SUBMITTED BY THE MINORITY—COLLECTION OF STUDENT LOANS, PROPRIETARY SCHOOLS, AND DEVELOPING INSTITUTIONS

1. Has HEW been hampered or delayed in any way in its efforts to locate defaulting borrowers because of restrictions on the availability of information in the possession of other Federal agencies? If so, please give details.

Until the enactment of the Tax Reform Act of 1976, the Commissioner of Education was authorized to obtain from the Internal Revenue Service (IRS) the mailing addresses of student loan defaulters to assist in the collection of these debts. The Commissioner used these IRS-obtained mailing addresses to directly collect on defaulted Guaranteed Student Loans (Federally Insured Program). However, for the National Direct Student Loan Program (NDSL), the Commissioner had served as the conduit between the educational institution attempting collection, and the IRS. The educational institutions, attempting collection on defaulted NDSL loans, had been able to request that the Commissioner obtain the last known IRS mailing address for defaulters that the schools could not locate. The Commissioner would obtain the addresses from IRS and transmit that information back to the schools - retaining no records with personal identifiers from the transactions.

In November 1976, these activities were halted by the IRS, pending their interpretation of the Tax Reform Act of 1976. In February 1978, after some negotiation, the Office of Education (OE) entered into a contract with IRS, whereby IRS agreed to provide the last known mailing address - from the Tax Return Form #1040 - for GSL defaulters that OE is unable to locate, and for whom OE would be attempting collection. Restrictions on the use of the mailing address (considered to be tax-return information and accordingly protected by the provisions of the Tax Reform Act of 1976) prevent OE from disclosing it to non-Federal employees - including contractors, until or unless the mailing address is confirmed through another source.

The provisions of the Tax Reform Act prohibit OE from providing the last known mailing address obtained from IRS to those schools attempting to locate and collect from defaulted NDSL borrowers. This prohibition would be removed by the Technical Corrections Act of 1978, H.R. 6715, which has passed the House and been reported by the Senate Finance Committee.

2. Has HEW fully explored the possibility of using information in the possession of other Federal agencies? Please give details.

The Department is reviewing and considering the various sources of information that could be useful in administering the Student Financial Aid Programs. Meetings have been held with the Federal agencies, IRS, VA, Labor and Social Security Administration (SSA) as to information available and procedures that need to be followed to gain access to the data.

Much of the information maintained by SSA is classified as tax related information and its release is prohibited under 26 USC section 6103 of the Tax Code.

We are currently exploring with the IRS and SSA the possible use of information such as earnings of students and/or parents, names and address of employers; including the use of waivers or other appropriate means available to gain access to the data.

Since the Social Security numbers are not classified as tax related information the IRS statute has no effect on the Social Security number files. In January 1978, we held a series of meetings with SSA officials and they agreed that release of the Social Security number files would be made to the Office of Inspector General.

3. Do the statutes establishing the guaranteed student loan program permit banks and other lenders to refuse to make loans they believe would not be repaid?

Banks and other lenders may refuse to make loans they believe that would not be paid under the Guaranteed Student Loan Program (GSLP), although their incentive is not great because these loans are fully guaranteed by the Federal government. There is no provision of law that requires a lender to make a loan or even to participate in the program. Lender participation is voluntary and, as they are using their own funds to make loans, they decide to whom will make the loans.

Section 430(d) of the statute states that nothing in the law "shall be construed to excuse the holder of a federally insured loan from exercising reasonable care and diligence in the making and collection of loans....". Except for the usual prohibition of discrimination on the basis of race, sex, color, or national origin, the lender may develop his own criteria for loan approval or denial. There is growing evidence that, as a result of the publicity and experience relating to defaults, many lenders are becoming much more cautious in providing loans to student who they are uncertain of (entering freshmen, noncustomers, etc.).

4. What procedures does HEW have to insure that only students who actually need loans for educational purposes can get them?

The student loan application requires that student to complete a portion of the application establishing that he is either a U.S. citizen or a permanent resident of the United States. The student must also execute an affidavit on the application that the proceeds of a loan will be used solely for expenses related to attendance at the educational institution.

The educational institution must certify that the student is enrolled, or accepted for enrollment, as at least a half-time student at the institution. The Office of Education, prior to approving the loan, verifies that the student is attending an eligible institution.

The lender is required to send the check to the educational institution in order to assure that the student actually attends the school before receiving the loan.

5. How large is the average loan?

Average loan amounts have graudally increased in size since the Program's inception as a result of both increased cost of education and amendments to the statutes which have periodically increased the maximum amounts available. The following table reflects the average loan amount over selected years since the Program's inception.

| Year | Average Loan |
|---|---|
| 1967 | $ 752 |
| 1970 | 911 |
| 1973 | 1,102 |
| 1975 | 1,313 |
| 1977 | 1,564 |
| 1978 (est.) | 1,673 |

6. What is the overall default rate?

The overall default rate for the total Guaranteed Student Loan Program as of the end of fiscal year 1977 (most recent actual data available) was 10.3%. The default rate for the federally insured phase of the program was 12.8%. The default rate for the combined guarantee agency programs was 8.3%.

The default rate for the National Direct Student Loan Program (based upon June 30, 1977 data) was 16.86%.

The formula used for calculated these rates is:

$$\frac{\text{Cumulative Loans In Default}}{\text{Cumulative Matured Loans}}$$

The numerator represents the total dollar amount of default claims paid, as well as on-hand to be paid, to lenders under the GSL program since inception.

The denominator represents the total dollar amount of all loans having entered repayment status since program inception. This amount includes fully repaid loans (including default claims paid) as well as those currently repaying, but excludes loans for which the borrower is still in school or in the grace period.

It is important to note that one reason for the historically lower default rates in the State Guarantee Agency programs is that some States have had more restrictive programs. For example, under some State programs, freshmen students have not been eligible for Guaranteed Student Loans, loan limits have been set considerably lower than the Federal program, and loans have been restricted to in-State student going to in-State schools. The result of these types of restrictions has been that State programs have assisted the less "risky" students.

7. Are there specific criminal penalties applicable to persons defrauding the government in connection with student financial assistance programs? If so, please give details.

The Education Act amendments of 1976 (P.L. 94-482), codified as 20 U.S.C. 1087-4 provided specific penalties for fraud in connection with the Federally Insured Student Loan program. This statute provides penalties of five years in prison and/or $10,000 fine for embezzlement, theft, fraud or forgery. Lesser penalties are provided for falsification or concealment in connection with an application for a guaranteed student loan; for unlawful payments (kickbacks) in connection with obtaining a loan; for falsifications or concealment in connection with a loan assignment; and for destruction of records dealing with loans where there is intent to defraud. Similar statutory provisions do not exist for the other student financial aid programs administered by OE.

The following listed general criminal statutes, Title 18 U.S.C., have been used to prosecute fraud and related activities involving educational grant and loan programs:

| | |
|---|---|
| Section 201 | Bribery of public officials generally. |
| 205 | Activities of officers and employees in claims against the Government. |
| 207 | Disqualification of former officers and employees in matters connected with their former duties. |
| 208 | Acts of officers and employees affecting a personal financial interest. |
| 209 | Salary of Government officials and employees payable only by the United States. |
| 285 | Taking or using papers related to claims (without authority). |
| 286 | Conspiracy to defraud the Government with respect to claims. |
| 287 | False, fictitious or fraudulent claims. |
| 641 | Public money, property or records (embezzlement or conversion). |

643 Accounting generally for public money.

648 Custodians, generally, misusing public funds.

649 Custodians failing to deposit moneys; persons affected.

651 Disbursing officer falsely certifying full payment.

653 Disbursing officer misusing public funds.

654 Officer or employee of the United States converting property of another.

712 Misuse of names by collection agencies or provate detective agencies to indicate Federal agency.

872 Extrotion by officers and employees of the United States.

1001 Statements or entries generally (false or deceptive with intent to defraud).

1002 Possession of false papers to defraud United States.

1003 Demands against the United States (false power of attorney or assignment).

1018 Official certificates or writings (false, by officials or others authorized by law).

1341 Frauds and swindles (by mail).

1342 Fictitious name or address (used in mail fraud).

1343 Fraud by wire, radio, or television

1621 Perjury.

2071 Concealment, removal or mutilation generally (of records, etc.).

2073 False entries and reports of moneys or securities (by those charged with keeping U.S. accounts).

912 False Personation (by collectors, of U.S. Agents).

371 Conspiracy to commit offense or to defraud the Government.

## -- PROPRIETARY SCHOOLS --

1. What requirements are imposed upon proprietary schools seeking eligibility to participate in student financial assistance programs? Who decides whether they are eligible? What investigation of their educational qualifications is made? What examination, if any, of their fiscal stability is conducted?

1.A. What requirements are imposed upon proprietary schools seeking eligibility to participate in student financial assistance programs?

There are two statutory provisions contained in the Higher Education Act of 1965, which govern the eligibility of proprietary schools seeking to participate in student financial aid programs (see attachments one and two).

Essentially these two provisions place requirements upon postsecondary proprietary schools and institutions which relate to:

- -- admissions policy;
- -- State legal authorization to provide postsecondary programs;
- -- establishing that the school offer a postsecondary educational program of a minimum duration;
- -- requiring that the school be in existence for two years;
- -- requiring that the school be accredited, if it has access to a nationally recognized accrediting agency listed by the U.S. Commissioner of Education.

While proprietary institutions have been subject to the statutory provisions cited above, which are contained in the Higher Education Act of 1965, definitive regulations implementing these provisions have not yet become final. Comprehensive institutional eligibility regulations implementing these statutory provisions and applicable to all postsecondary institutions have been under development for the past five years. Because of the extensive impact upon the postsecondary education community which the eligibility regulations will have, and the complexities involved in drafting meaningful regulations which would apply appropriately to the enormous range of types of postsecondary institutions concerned, the Office of Education and the Department have proceeded very carefully in developing these regulations. It now is anticipated that the institutional eligibility regulations will be published before the end of 1978.

These regulations will clarify specific statutory provisions pertinent to proprietary schools regarding such matters as:

- -- preparing students for "gainful employment";
- -- contracting with other educational enterprises to provide programs or courses;
- -- changes in ownership or control of an eligible institution.

ATTACHMENT 1

## Higher Education Act of 1965, as amended, Section 435(c)

(c) The term "vocational school" means a business or trade school, or technical institution or other technical or vocational school, in any State, which (1) admits as regular students only persons who have completed or left elementary or secondary school and who have the ability to benefit from the training offered by such institution; (2) is legally authorized to provide, and provides within that State, a program of postsecondary vocational or technical education designed to fit individuals for useful employment in recognized occupations; (3) has been in existence for two years or has been specially accredited by the Commissioner as an institution meeting the other requirements of this subsection; and (4) is accredited (A) by a nationally recognized accrediting agency or association listed by the Commissioner pursuant to this clause, (B) if the Commissioner determines that there is no nationally recognized accrediting agency or association qualified to accredit schools of a particular category, by a State agency listed by the Commissioner pursuant to this clause and (C) if the Commissioner determines there is no nationally recognized or State agency or association qualified to accredit schools of a particular category, by an advisory committee appointed by him and composed of persons specially qualified to evaluate training provided by schools of that category, which committee shall prescribe the standards of content, scope, and quality which must be met by those schools in order for loans [illegible] students attending them to be insurable under this part and shall also determine whether particular schools meet those standards. For the purpose of this subsection, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations and State agencies which he determines to be reliable authority as to the quality of education or training afforded.

ATTACHMENT 2

## ELIGIBILITY REQUIREMENTS
## PROPRIETARY INSTITUTIONS OF HIGHER EDUCATION
Higher Education Act of 1965, as Amended (Section 491 (b)(3))

The term "proprietary institution of higher education" means a school which:

(1) (a) provides not less than a six-month program* of training to prepare students for gainful employment in a recognized occupation, or

(b) in the case of a program offered by correspondance, provides a program of study which consists of not less than 600 clock hours of training,

(2) admits as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such a certificate,

(3) is legally authorized within its State to provide a program of education beyond secondary education,

(4) is accredited by a nationally recognized accrediting agency or association approved by the Commissioner of Education for this purpose (see enclosed list),

(5) has been in existance for at least two years, and

(6) is not a public or other nonprofit institution.

---

* 600 clock hours for National Direct Student Loan Program, College Work/Study Program and Supplemental Educational Opportunity Grants Program.

### 1.B. Who decides whether they are eligible?

Administrative responsibility for determining a postsecondary institution's eligibility status for approximately thirty Federal funding programs rests with the Division of Eligibility and Agency Evaluation (DEAE) in the Office of Education. In making its institutional eligibility determinations, the Division operates under a statutorily-imposed framework which requires both reliance upon the actions of other agencies and of the applicant school, and determinations by analysts of the Division regarding each school's characteristics.

Initial eligibility is granted to institutions and to program within institutions which meet prescribed statutory and regulatory prerequisites. These include: (a) State licensing or chartering; (b) accreditation by an accrediting agency or approval by a State approval agency recognized by the U.S. Commissioner of Education; and (c) compliance with Federal regulations and nondiscrimination guidelines.

1.C. What investigation of their educational qualifications is made?

The educational qualifications of proprietary postsecondary institutions are assessed through a multi-pronged process, involving the interaction of State authorities, private, voluntary non-governmental educational accrediting agencies, and, increasingly, by Federal program reviews of the record of institutional performance in Federally assisted education activities. These include:

- Fundamental action by State and local authorities, because educational matters are primarily a matter of State and local responsibility with regard to oversight of institutions. Hence, States charter institutions to exist, authorize them to operate, classify them as to what degrees or certificates they may confer, and regulate and monitor their activities. Based upon recent research into State oversight functions, we are aware of the enormous range of State activities in this area, ranging from essentially none in at least three States (Missouri, Utah, Vermont) across a spectrum of increasing State concern and involvement to that of the New York State Board of Regents.

- At the second level, eligibility statutes provide Congressional recognition of the traditional American process of educational accreditation as a measure of establishing minimum standards of educational quality. this process relies upon the group of 70+ nationally recognized accrediting agencies listed by the Commissioner of Education as reliable authorities as to the quality of training offered by educational institutions and programs. Attached is a brochure listing the 70+ nationally recognized accrediting agencies and the Commissioner's criteria for their selection.

1.D. What examination, if any, of their fiscal stability is conducted?

At the first instance, the fiscal stability of proprietary institutions is reviewed by the State authorities chartering them to exist and authorizing them to operate. The depth and extent of such State review varied widely, as noted above, according to individual State statutes, regulations and State administrative enforcement and practices.

Each nationally recognized accrediting agency utilizes its own standards of financial viability and administrative capability which are tailored to the individual governance and type of institutions require annual fiscal reports from their accredited institutions.

Pursuant to the institutional "terms of agreement" with the Commissioner, the Certification Branch of the Bureau of Student Financial Assistance collects fiscal data from each institution, in addition to other financial reports, which are assessed prior to implementing the terms of agreement.

Inidivdual program regulations then come into play, governing annual "fiscal operations reports," and program reviews and audits which are performed by Federal program administrators and auditors on periodic and as-needed bases. In addition, specific fiscal information requirements, such as the ratio of institutional assets to liabilities, are set forth in certain program regulations, such as those governing the Guaranteed Student Loan Program (GSLP).

Pursuant to the Education Amendments of 1976, new regulations setting forth minimum standards of institutional financial responsibility and administrative capability for all types of eligible institutions were issued as a notice of proposed rule making on August 10, 1978.

2. Approximately what percentage of the student financial assistance funds made available to proprietary schools each year are audited by HEW auditors; by State auditors; and by private accounting firms?

The HEW Audit Agency's management information system does not keep track of audits by types of institutions, therefore, this information is currently not available. However, we estimate that during FY 77 that not more than 10 percent of the total student aid funds were audited. The bulk of the audits were performed by private accounting firms. With the issuance of the mandated non-Federal audit requirements on the Campus Based and BEOG Programs, beginning with the program year ended June 30, 1979, we estimate that all of the funds made available from the above programs will be audited at least once every two years.

The Commissioner of Education prescribes the following as it relates to non-Federal audits:

> "All of an institution's transactions involving its (CWS/NDSL/SEOG/BEOG) funds shall be audited by the institution or at the institution's direction to determine, at a minimum, the fiscal integrity of financial transactions and reports and whether such transactions are in compliance with applicable laws and regulations. Such audits shall be performed in accordance with the Department of Health, Education, and Welfare "Audit Guide" for student financial aid programs, and shall be scheduled with reasonable frequency, usually, but not less frequently than once every two years, considering the size and complexity of the activity of the program."

3. Have there been instances in which proprietary schools have gone out of business without accounting for all Federal financial aid funds received or without making refunds due students? If so, approximately how many and what is your best estimate of the loss to the Federal Government and students?

HEW does not have information on the total number of institutions which have closed during the year and have thereby harmed students who were enrolled at the time of the closure. We do know that it has happened in some instances.

Because of this experience, the Bureau of Student Financial Assistance, in conjunction with the Division of Eligibility and Agency Evaluation and the Inspector General's Office, have developed a procedures manual to be used when schools close. This manual covers a wide number of items, one of which is procedures to be followed to see that students receive all of the funds to which they may be entitled.

When DEAE terminates the eligibility of an institution to participate in the Title IV programs because of closure, the letter of termination to the institution contains instructions on honoring commitments of student financial aid funds which have been made to students enrolled as of the date the institution receives the termination letter. Although further draw of funds from DFAFS normally ceases at this point, procedures are in place to permit additional funds to be released to honor commitments if the school needs such funds.

This manual is currently in final draft form and is expected to be available in final by October 1, 1978.

4. What is the average default rate on student loans under government programs at proprietary schools? Please give separate figures for NDSL and the guaranteed loan programs, if available. How do these figures compare with the default rates for other categories of institutions?

We have provided a chart which shows default information by type and control of institution under the National Direct Student Loan Program.

We do not have default information by type and control of institution in the Guaranteed Student Loan Program but expect to have it in the next few months. At that time, it will be forwarded to the Commissioner.

5. In view of the substantial amounts being spent for public vocational education, why is it necessary to provide financial assistance for students attending proprietary schools?

The types of institutions eligible under the Federal student assistance programs are specified in the law. Proprietary institutions of higher education are specifically listed as eligible schools. Therefore, the law requires that student attending those schools are eligible to receive Federal student aid.

February 9, 1978
Division of Program Ope

## NATIONAL DIRECT STUDENT LOAN PROGRAM

## STATUS OF DEFAULTS AS OF JUNE 30, 1977

## TYPE AND CONTROL OF INSTITUTIONS

| TYPE AND CONTROL | NO. OF SCHOOLS | NO. OF STUDENTS IN DEFAULT | PRINCIPAL OUTSTANDING IN DEFAULT | MATURED PRINCIPAL | DEFAULT RATE |
|---|---|---|---|---|---|
| PUBLIC | 1,055 | 429,708 | $321,650,204 | $1,846,669,555 | 17.42% |
| UNIVERSITY | 350 | 264,503 | $229,914,937 | $1,458,083,344 | 15.77% |
| OTHER FOUR YEAR | 164 | 66,130 | $ 45,287,191 | $ 249,249,837 | 18.17% |
| TWO YEAR | 507 | 96,576 | $ 45,202,594 | $ 135,393,638 | 33.39% |
| AREA-VOCATIONAL | 34 | 2,499 | $ 1,245,482 | $ 3,942,736 | 31.59% |
| PRIVATE | 1,216 | 259,070 | $241,878,165 | $1,542,357,894 | 15.68% |
| UNIVERSITY | 356 | 107,079 | $118,361,596 | $ 819,863,129 | 14.44% |
| OTHER FOUR YEAR | 683 | 131,220 | $112,401,212 | $ 674,397,186 | 16.67% |
| TWO YEAR | 177 | 20,771 | $ 11,115,357 | $ 48,097,579 | 23.11% |
| PROPRIETARY | 748 | 24,503 | $ 18,067,239 | $ 61,347,139 | 29.45% |
| TOTAL | 3,019 | 713,281 | $581,595,608 | $3,450,374,588 | 16.86% |

## -- DEVELOPING INSTITUTIONS --

1. Can you give me a precise defintion of a developing institution under Title III of the Higher Education Act?

Sec. 302(a) of the Higher Education Act of 1965 as amended defines a "developing institution" as "an institution of higher education in any State which--

(A) is legally authorized to provide, and provides within the State, an educational program for which it awards a bachelor's degree, or is a junior or community college;

(B) is accredited by a nationally recognized accrediting agency or association determined by the Commissioner to be reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation;

(C) except as is provided in paragraph (2), has met the requirement of clauses (A) and (B) during the five academic years preceding the academic year for which it seeks assistance under this title; and

(D) meets such other requirements as the Commissioner shall prescribe by regulation, which requirements shall include at least a determination that the institution--

  (i) is making a reasonable effort to improve the quality of its teaching and administrative staffs and of its student services; and

  (ii) is, for financial or other reaons, struggling for survival and isolated from the main currents of academic life."

The definition is further clarified in current program regulations, (Federal Register, Vol. 40, No. 107 -- Tuesday, June 3, 1975) which in Part B, sections 169.11, 169.12 and 169.13, list the general criteria, quantitative factors, and qualitative factors, for identifying developing institutions. With reauthorization approaching, we are currently examining ways in which to make the definition more precise. (Regulations attached.)

Attachment to
Q. #1
Developing Insts

section 1201(1) of the Higher Education Act of 1965 or for any religious worship or sectarian activity.

(20 U.S.C. 1066, 1141(1))

**§ 169.6 General provisions regulation.**

(a) Assistance provided under this part is subject to applicable provisions contained in Subchapter A of this chapter (relating to fiscal, administrative and other matters).

(20 U.S.C. 1031–1036)

## Subpart B—Criteria for Identifying Developing Institutions

**§ 169.11 General criteria.**

A "developing institution" is an institution of higher education in any State which:

(a) Is legally authorized to provide, and provides within the State, an education program for which it awards a bachelor's degree, or is a junior or community college;

(b) Admits as regular students only persons having a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate;

(c) Is accredited by a nationally recognized accrediting agency or association determined by the Commissioner to be reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation;

(d) Meets the requirements of paragraphs (a) and (c) of this section during the five academic years preceding the academic year for which it seeks assistance under this part, except that:

(1) the Commissioner may waive this five year requirement for those institutions located on or near an Indian reservation or a substantial number of Indians if he determines that such a waiver will increase the opportunity for Indians to obtain the benefits of higher education; and

(2) the Commissioner may waive three years of this five year requirement for an institution if he determines that such a waiver will substantially increase higher education for Spanish-speaking people. For purposes of this subparagraph, Spanish-speaking people are those persons of hispanic heritage including persons of Mexican, Puerto Rican, Cuban, Central American, South American, or other Spanish-speaking origin.

(e) Is, on the basis of the quantitative and qualitative factors set forth in §§ 169.12 and 169.13 respectively, (1) making reasonable effort to improve the quality of its teaching and administrative staffs and of its student services; and (2) for financial or other reasons, struggling for survival and isolated from the main currents of academic life.

(20 U.S.C. 1052)

**§ 169.12 Quantitative factors for identifying developing institutions.**

The following eight factors have been identified as the most important quantitative measures in assessing whether an institution meets the conditions set forth in § 169.11(e). They have been quantified by institutional type and control. These factors define the range of developing institutions. Every institution which meets all the quantitative standards will be included for further evaluation under the qualitative criteria. Institutions that fall outside the range of one or more of the criteria will be given an opportunity to demonstrate that the shortfall or excess as the case may be does not materially alter the character of the institution.

**Title III of the Higher Education Act of 1965**

**Strengthening Developing Institutions**

**Percentiles for FY '74 Grantees (AIDP and BIDP) Using Data from '74 Applications**

| | 5% | 25% | 50% | 75% | 95% |
|---|---|---|---|---|---|
| **2-Year Public** | | | | | |
| FTE Enrollment | 393 | 748 | 1,217 | 2,301 | 4,122 |
| Full-Time Enrollment | 275 | 672 | 890 | 1,609 | 3,045 |
| % of Faculty w/Masters | 40 | 70 | 79 | 83 | 91 |
| Average Faculty Salary | 7,500 | 8,522 | 10,113 | 11,041 | 14,500 |
| % of Students from Low Income Families[1] | 14 | 33 | 47 | 63 | 56 |
| Total E & G Expenditures | 481,212 | 1,118,262 | 1,842,652 | 2,488,919 | 4,700,000 |
| E & G Expenditures, FTE | 821 | 1,068 | 1,341 | 1,680 | 2,500 |
| Volumes in Library | 10,750 | 20,913 | 27,303 | 34,170 | 47,000 |
| **2-Year Private** | | | | | |
| FTE Enrollment | 147 | 205 | 410 | 592 | 1,504 |
| Full Time Enrollment | 124 | 175 | 384 | 544 | 1,198 |
| % of Faculty w/Masters | 40 | 67 | 74 | 81 | 98 |
| Average Faculty Salary | 6,225 | 7,100 | 7,850 | 8,424 | 9,472 |
| % of Students from Low Income Families[1] | 17 | 23 | 38 | 60 | 94 |
| Total E & G Expenditures | 315,562 | 370,717 | 672,885 | 990,784 | 1,407,407 |
| E & G Expenditures, FTE | 555 | 973 | 1,492 | 2,144 | 4,001 |
| Volumes in Library | 8,510 | 18,895 | 21,170 | 29,230 | 60,418 |
| **4-Year Public** | | | | | |
| FTE Enrollment | 872 | 1,702 | 2,372 | 3,224 | 5,200 |
| % of Faculty w/PhD | 20 | 28 | 31 | 36 | 45 |
| Average Salary/Professor | 11,480 | 14,040 | 15,467 | 16,318 | 17,849 |
| Average Salary/Instructor | 8,000 | 8,694 | 8,905 | 9,458 | 10,340 |
| % of Students from Low Income Families[1] | 18 | 42 | 63 | 78 | 95 |
| Total E & G Expenditures | 989,633 | 2,016,696 | 3,017,770 | 5,295,119 | 10,250,000 |
| E & G Expenditures, FTE | 1,101 | 1,617 | 1,963 | 2,402 | 3,153 |
| Volumes in Library | 45,000 | 73,233 | 95,000 | 150,430 | 242,191 |
| **4-Year Private** | | | | | |
| FTE Enrollment | 348 | 482 | 704 | 1,027 | 1,643 |
| % of Faculty w/PhD | 12 | 24 | 31 | 40 | 49 |
| Average Salary/Professor | 9,750 | 12,000 | 12,854 | 13,902 | 15,840 |
| Average Salary/Instructor | 6,853 | 7,450 | 8,230 | 8,971 | 9,470 |
| % of Students from Low Income Families[1] | 10 | 74 | 44 | 77 | 96 |
| Total E & G Expenditures | 601,500 | 1,108,571 | 1,380,827 | 2,140,848 | 3,987,714 |
| E & G Expenditures, FTE | 1,040 | 1,820 | 2,198 | 2,380 | 3,744 |
| Volumes in Library | 27,300 | 48,000 | 57,330 | 66,000 | 90,788 |

[1] For purposes of this subpart a low-income family is one whose adjusted family income is less than $7,500. (20 U.S.C. 1062)

**§ 169.13 Qualitative factors for identifying developing institutions.**

Those institutions which satisfy the requirements set out in § 169.12 will be further assessed on the following qualitative factors which will be used to assess whether the institution meets the conditions set forth in § 169.11(e). These factors will be evaluated over a three year period. Such period will include the academic year in which the institution is seeking recognition as a developing institution and the preceding two academic years.

(a)(1) *Enrollment.* Consideration will be given to the institution's full-time equivalent enrollment, the number of its graduates continuing their education either at a four year institution in the case of a junior or community college, or at a graduate or professional school, the class standing of entering freshmen in their high school graduating class, the percentage of freshmen completing their first year and the percentage of freshmen graduating from the institution. If such enrollment data are in a decline over the three year period the institution must demonstrate that such a decline is not inconsistent with continued institutional viability.

(2) In evaluating an institution pursuant to the criteria discussed in paragraph (a)(1) of this section, the Commissioner will take into consideration whether the institution has adopted an open enrollment admissions policy. As used in this section an open enrollment admissions policy of an institution of higher education means that the institution will admit as regular students all students who apply to that school for admission who have a certificate of graduation from a school providing secondary education, or the recognized equivalent of such a certificate.

(b) *Institution personnel.* An institution will be evaluated with regard to the quality of its personnel in the areas of institutional administration including financial operations, student services, teaching and research. Factors considered in making such an evaluation will include the percentage of professional personnel with advanced degrees and the salary scale of the institution.

(c) *Institution vitality.* An institution will be evaluated in terms of its vitality and viability. Factors considered in such a determination will include its fund raising capability, whether the institution has a planning capability and whether the institution has devised an institutional development plan.

(20 U.S.C. 1063)

2. Hcw many developing institutions are there and how much is each currently receiving? What is the cumulative total received by each institution?

There are approximately 1,000 institutions which meet the current statutory description of a developing institution. Seven hundred and ninety-six of these have received grants under the Title III program since its inception. A listing of current grantees is attached.

3. Given the fact that minorities can obtain education in mainstream postsecondary programs, what is the justification for continued developing institution funding?

Without such support, thousands of minority students would not have the chance to go to college and our goal of equal opportunity would be substantially diminished. While 75% of the black students in higher education today are in predominantly white institutions (many of these in community colleges), the 25% of black students who are in predominantly black institutions constitute 45% of the black graudates from college. These institutions have played an historic role in expanding the opportunity for higher education to disadvantaged students and in producing the majority of the black leaders in our country.

It should also be emphasized that the Title III developing institutions program does not encompass only black or minority institutions. The statute provides a 24% set-aside for two-year institutions. A review of the current awards indicates that, of the 240 institutions receiving grants in the Basic program, 152 or 62.3% are non-minority institutions. These institutions received $21,519,000 or 41% of the $52,000,000 awarded. In the Advanced Program, of the 165 institutions which are currently receiving funding, 98 or 59.4% are non-minority institutions. These institutions have received 41.6% of the $325 1/2 million awarded over the past five years.

ATTACHMENT FOR QUESTION #2, DEVELOPING INSTITUTIONS
(QUESTIONS SUBMITTED BY THE MINORITY COUNSEL)

FY 1977 AWARDS

BASIC INSTITUTIONAL DEVELOPMENT PROGRAM

TITLE III, STRENGTHENING DEVELOPING INSTITUTIONS

Total $52,476,440 - 190 Grantees

| STATE | INSTITUTION | AMOUNT AWARDED |
|---|---|---|
| AS | American Samoa Cmty. College | 140,000 |
| AL | Alabama State University | 500,000 |
| | Alexander City State Junior College | 100,000 |
| | Brewer State Junior College | 175,000 |
| | Huntingdon College | 100,000 |
| | Lawson State Community College | 350,000 |
| | Livingston University | 174,900 |
| | L.B. Wallace State Junior College | 200,000 |
| | Oakwood College-TACTICS ($552,600)<br>Oakwood College ($450,000 | 1,002,600 |
| | S.D. Bishop State Junior College | 400,000 |
| | Southern Benedictine College | 200,000 |
| | Spring Hill College | 150,000 |
| | Stillman College-TACTICS ($273,600)<br>Stillman College ($750,000) | 1,023,600 |
| | Talladega College | 890,000 |
| AK | Sheldon Jackson College | 150,000 |
| AZ | Arizona Western College | 275,000 |
| | College of Ganado | 200,000 |
| | Eastern Az. College | 240,000 |
| | Maricopa Technical College | 200,000 |
| | Navajo Community College | 350,000 |
| | Yavapai College | 176,000 |
| AR | Arkansas College | 250,000 |
| | College of the Ozarks | 200,000 |
| | John Brown University | 100,000 |
| | Philander Smith College | 425,000 |
| | Phillips County Cmty. College | 250,[illegible]0 |
| | Southern Ark. University | 150,000 |
| | U. of Ark., Pine Bluff | 900,000 |
| CA | Imperial Valley College | 100,000 |
| | Nairobi College, Inc. | 100,000 |
| | Pacific College of Fresno | 100,000 |
| | Southern California College | 125,000 |

| STATE | INSTITUTION | AMOUNT AWARDED |
|---|---|---|
| CO | Fort Lewis College | 250,000 |
| | Trinidad State Junior College | 175,100 |
| CT | South Central Cmty. College | 350,000 |
| DE | Delaware Tech & C.C., Dover | 100,000 |
| FL | Brevard Cmty. College - ACCTion | 266,800 |
| | Edward Waters College | 400,000 |
| | Florida A & M University | 675,000 |
| | Florida Memorial College | 550,000 |
| GA | Albany State College | 700,000 |
| | Armstrong State College | 200,000 |
| | Columbus College | 100,000 |
| | Gainesville Junior College | 150,000 |
| | Gordon Junior College | 100,000 |
| | Paine College | 550,000 |
| HI | Chaminade College of Honolulu | 200,000 |
| | Hawaii Pacific College | 150,000 |
| | U. of Hi., Honolulu Cmty. College | 100,000 |
| IL | Aurora College | 125,000 |
| | City Col. of Chicago, Loop | 220,000 |
| | Olivet Nazarene College | 125,000 |
| | Spertus College of Judaica | 100,000 |
| IN | Indiana Inst. of Technology | 100,000 |
| | Oakland City College | 100,000 |
| IA | Briar Cliff College | 400,000 |
| | Kirkwood Cmty. College-ACCTion<br>Community Services ($220,500)<br>National Center ($310,100) | 530,600 |
| KS | Baker University | 200,000 |
| | Bethany College | 175,000 |
| | Bethel College | 250,000 |
| | Donnelly College | 150,000 |
| | Hesston College-ACCTion | 322,200 |
| | Kansas Newman College | 225,000 |
| | Kansas Wesleyan College | 100,000 |
| | McPherson College | 200,000 |
| | Southwestern College | 200,000 |
| | Sterling College | 125,000 |
| | Tabor College | 125,000 |

| STATE | INSTITUTION | AMOUNT AWARDED |
|---|---|---|
| KY | Alice Lloyd College | 100,000 |
|  | Jefferson Cmty. College | 175,000 |
|  | Spalding College | 100,000 |
| LA | Delgado Junior College | 125,000 |
|  | Southern U., New Orleans | 550,000 |
|  | Southern U., Shreveport | 425,000 |
|  | Saint Mary's Dominican College | 100,000 |
| ME | Husson College | 150,000 |
|  | Unity College | 175,000 |
| MD | Coppin State College | 600,000 |
|  | U. of Md., Eastern Shore | 500,000 |
| MI | Detroit Inst. of Technology | 500,000 |
|  | Shaw College at Detroit | 550,000 |
|  | Suomi College | 100,000 |
| MN | Metropolitan State Junior College | 150,000 |
| MS | Alcorn State University | 600,000 |
|  | Coahoma Junior College | 325,000 |
|  | Ms. Valley State U. | 675,000 |
|  | Utica Junior College | 300,000 |
| MO | Harris Teachers College | 300,000 |
| MT | Carroll College | 250,000 |
|  | Flathead Valley Cmty. College | 100,000 |
| NE | College of Saint Mary | 250,000 |
| NH | Notre Dame College | 225,000 |
| NJ | Atlantic Cmty. College | 150,000 |
|  | Camden County College | 200,000 |
| NM | College of Santa Fe | 275,000 |
|  | Eastern NM U., Portales | 350,000 |
|  | Eastern NM U., Roswell | 100,000 |
|  | NM Highlands University | 200,000 |
|  | U. of Albuquerque | 250,000 |
|  | Western NM University | 250,000 |
| NY | Boricua College | 27,000 |
|  | Medgar Evers College | 400,000 |

| STATE | INSTITUTION | | AMOUNT AWARDED |
|---|---|---|---|
| NC | Barber-Scotia College | | 475,000 |
| | Chowan College | | 150,000 |
| | Durham College | | 275,000 |
| | Elizabeth City State U. | | 820,000 |
| | Greensboro College | | 130,000 |
| | Livingstone College-TACTICS | ($282,600) | 932,600 |
| | Livingstone College | ($650,000) | |
| | Pembroke State U. | | 100,000 |
| | Southwestern Tech. Inst. | | 135,000 |
| | U. of NC, Wilmington | | 150,000 |
| | Warren Wilson College | | 100,000 |
| | Wilson County Tech. Inst. | | 200,000 |
| | Winston-Salem State U. | | 700,000 |
| ND | Bismarck Junior College | | 300,000 |
| | Jamestown College | | 250,000 |
| | Lake Region Jr. College | | 175,000 |
| | Mary College | | 350,000 |
| | ND State U., Bottineau Branch | | 250,000 |
| OH | Findlay College | | 250,000 |
| | Mount Vernon Nazarene College | | 175,000 |
| | Rio Grande College | | 200,000 |
| | Urbana College | | 150,000 |
| OK | Bacone College | | 150,000 |
| | Cameron University | | 200,000 |
| | Carl Albert Junior College | | 100,000 |
| | Connors State College | | 150,000 |
| | Langston University | | 575,000 |
| | Saint Gregory's College | | 100,000 |
| OR | Central Oregon Cmty. College | | 100,000 |
| | Concordia College | | 150,000 |
| | George Fox College | | 100,000 |
| PA | Alliance College | | 150,000 |
| | Cheyney State College | | 525,000 |
| | Messiah College | | 100,000 |
| PR | Bayamon Central University | | 375,000 |
| | Bayamon Reg. Coll., Hato Rey, Inter-American U. | | 100,000 |
| | Catholic U. of P.R. | | 300,000 |
| | Colegio Univ. del Turabo | | 150,000 |
| | Coll. of Sacred Heart | | 200,000 |
| | Inter-American U., San Juan | | 250,000 |
| | PR Junior College | | 141,340 |
| | World University | | 100,000 |

| STATE | INSTITUTION | | AMOUNT AWARDED |
|---|---|---|---|
| SC | Allen University | | 400,000 |
| | Claflin College | | 450,000 |
| | Lander College | | 135,100 |
| | Morris College | | 485,000 |
| | Newberry College | | 250,000 |
| | Tri-County Tech College - ACCTion | | 340,400 |
| SD | Black Hills State College | | 550,000 |
| | Dakota Wesleyan Univ. | | 175,000 |
| | Huron College | | 200,000 |
| | Northern State College | | 200,000 |
| TN | Knoxville College-TACTICS | ($480,600) | 1,030,600 |
| | Knoxville College | ($550,000) | |
| | Lane College-TACTICS | ($210,600) | 760,600 |
| | Lane College | ($550,000) | |
| | Lee College | | 100,000 |
| | LeMoyne-Owen College | | 550,000 |
| | Maryville College | | 250,000 |
| | Shelby State Cmty. College | | 132,000 |
| | Trevecca Nazarene College | | 125,000 |
| | Tusculum College | | 550,000 |
| TX | Bee County College | | 132,000 |
| | Huston-Tillotson College | | 630,000 |
| | Incarnate Word College | | 100,000 |
| | Jarvis Christian College | | 595,000 |
| | Laredo Junior College | | 275,000 |
| | Paul Quinn College | | 400,000 |
| | Saint Philip's College | | 100,000 |
| | Wiley College | | 450,000 |
| UT | College of Eastern Utah | | 100,000 |
| | Southern Utah State College | | 100,000 |
| VT | Lyndon State College | | 100,000 |
| | Windham College | | 150,000 |
| VA | Averett College - CASC | | 1,500,000 |
| | Paul D. Camp Cmty. College | | 125,000 |
| | Saint Paul's College | | 450,000 |
| | Wytheville Cmty. College | | 175,000 |
| VI | College of Virgin Islands | | 350,000 |
| WA | Wenatchee Valley College | | 163,000 |
| | Yakima Valley College | | 100,000 |
| WV | Glenville State College | | 200,000 |
| | Morris Harvey College | | 100,000 |
| | Potomac State College of WV | | 150,000 |
| | Southern WV Cmty. College, Logan | | 100,000 |
| | WV Institute of Technology | | 225,000 |
| WI | Alverno College | | 100,000 |
| | Lakeland College | | 150,000 |
| | Mount Senario College | | 200,000 |
| | Northland College | | 175,000 |
| WY | Eastern Wyoming College | | 100,000 |

ATTACHMENT FOR QUESTION #2, DEVELOPING INSTITUTIONS
(QUESTIONS SUBMITTED BY THE MINORITY COUNSEL)
ADVANCED INSTITUTIONAL DEVELOPMENT PROGRAM
(Title III, Amended Higher Education Act of 1965)

## FISCAL YEAR 1977 NEW MULTI-YEAR GRANTS

| STATE | AMOUNT |
|---|---|
| ALABAMA | |
| Snead State Junior College | $1,000,000 |
| CALIFORNIA | |
| Mount St. Mary's College | 1,000,000 |
| DISTRICT OF COLUMBIA | |
| Trinity College | 1,000,000 |
| GEORGIA | |
| Fort Valley State College | 2,700,000 |
| ILLINOIS | |
| Barat College | 1,000,000 |
| Chicago State University | 2,000,000 |
| Elgin Community College | 1,000,000 |
| KENTUCKY | |
| Thomas More College | 1,300,000 |
| LOUISIANA | |
| Grambling State University | 2,800,000 |
| MISSOURI | |
| Lincoln University | 3,000,000 |
| NEW YORK | |
| Marymount Manhattan College | 1,500,000 |
| NORTH CAROLINA | |
| Elon College | 2,000,000 |
| Fayetteville State University | 3,000,000 |
| OHIO | |
| Wilmington College | 1,500,000 |
| SOUTH CAROLINA | |
| Greenville Technical College | 1,200,000 |
| Spartanburg Methodist College | 1,000,000 |
| Trident Technical College | 1,600,000 |
| Voorhees College | 2,200,000 |

| STATE | AMOUNT |
|---|---|
| TENNESSEE | |
| Austin Peay University | $2,000,000 |
| Christian Brothers College | 1,600,000 |
| Lambuth College | 1,000,000 |
| TEXAS | |
| Our Lady of the Lake University of San Antonio | 1,500,000 |
| St. Edward's University | 2,000,000 |
| Wharton County Junior College | 1,300,000 |
| VIRGINIA | |
| J. Sargeant Reynolds Community College | 1,700,000 |
| Virginia State College | 2,700,000 |
| WEST VIRGINIA | |
| Parkersburg Community College | 1,430,000 |
| West Virginia State College | 2,000,000 |
| WISCONSIN | |
| Western Wisconsin Technical Institute | 1,400,000 |
| CONSORTIA | |
| Central YMCA Community College | 460,500 |
| Tuskegee Institute | 832,500 |

4. We understand that there is a GAO Report currently under wraps at HEW which is highly critical of developing institutions. What can you tell me about that and how do you specifically propose to deal with mismanaged funds under the program?

   The GAO Report is still undergoing final processing at GAO and has not yet been submitted for HEW review. Consequently, we are not in a position to comment on it at this time. We are advised by GAO that it will be published within the next several months.

5. I understand that there are two phases of developing institution funding - basic and advanced. Can you give me a layman's definition of both? Is it true that institutions which have already received basic and advanced funding sometimes come back for basic money? How often does this occur?

   The Basic Program provides one-year (renewable) grants ($100 - 200,000 per institution) for the development of basic strength in four principal categories of institutional support-administrative improvement, faculty development, curriculum development and student services.

   The Advanced Program provides three to five year grants ($1 - 3,000,000 per institution) to develop institutions with a potential for accelerated development and to expedite their progress toward achieving both operational and fiscal stability, resulting in total institutional development and participation in the mainstream of American higher education.

   The Office of Education has not encouraged, and there has been no evidence of, widespread efforts on the part of institutions to return to the Basic Program after participating in the Advanced Program. Since there is no statutory distinction between the programs, however, as long as an institution is "developing" under the terms of the law, it can apply for, and receive, a Basic grant. This occurred for the first time in the funding cycle just completed, fiscal year 1978. Three institutions which had received grants support in the Advanced Program submitted applications for support in the Basic program. Only one of these applicants was funded in the Basic program. We are addressing this question in a rewriting of the Title III regulations and in the reauthorization process.

## Appendix 4.—Targets for Reduction of HEW Losses From Fraud, Abuse, and Waste

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

June 6, 1978

Dear Representative:

During the next few weeks, the Labor-HEW appropriations bill will be taken up in both Houses of the Congress. As a result of the first annual Report by HEW's Inspector General -- who, at my request, developed a rough estimate of the HEW funds unnecessarily or improperly spent in fiscal 1977 -- some members may propose flat, across-the-board reductions in the HEW budget in amounts the Inspector General identified.

Such an indiscriminate approach shows a serious misunderstanding of the fraud, abuse and waste problem and the effective ways to deal with it. Arbitrary, across-the-board cuts in the HEW budget -- especially out of the entitlement programs that aid our nation's older citizens and its sick, its disadvantaged children, its handicapped, and its poor -- will not reduce unnecessary or improper expenditures. Such meat-axe cuts will reduce the funds available for the millions of Americans who benefit properly from HEW programs, as the Congress intended.

A much more carefully targeted approach that focuses on ways of identifying and then rooting out fraud, error and waste is necessary if the Congress and the Executive are to make real progress in instituting systems that will ensure, to the greatest extent possible, the financial integrity of HEW's programs.

Indeed, there is no more important mission for the Secretary of HEW than the development of systematic initiatives to reduce substantially the dollars that are lost as a result of fraud, abuse or waste. Since becoming Secretary, I have devoted a great deal of my time to developing and implementing such initiatives.

Today I have sent a directive to the operating components of the Department setting targets for the reduction of dollars lost through fraud, abuse and waste. For your information, a copy of that directive is attached.

The targets are based on what we estimate we can do administratively with available knowledge and available resources. We will move as expeditiously as we can under existing legislation to stop the leakage of funds.

But, as the attached memorandum makes clear, Congress also has a vital role to play in helping Department administrators deal forcefully with problems of fraud, abuse and waste.

Let me give a salient example. More than half of the improperly or unnecessarily expended funds identified by the Inspector General are a result of wasteful costs associated with health care. And a large portion of that waste in health care costs could be eliminated if the Congress passes the President's Hospital Cost Containment legislation. If that legislation took effect on October 1, 1978, we could save $730 million in Federal expenditures in fiscal 1979 (and over $2 billion in the health care system as a whole).

The Congress has acted wisely in passing the Medicare-Medicaid Fraud and Abuse Amendments of 1977 and the Kidney Disease Reimbursement Improvements Act of 1978. For example, by providing kidney dialysis at home, the Kidney Disease Reimbursement Improvements Act will, it is estimated, save $14 million in fiscal 1979 and $40 million in fiscal 1980.

Indeed, while we estimate that moving administratively with existing resources and knowledge HEW can eliminate approximately $1.7 billion lost to waste, abuse and fraud during fiscal 1980, we also estimate that Congressional action on pending legislation could result in an additional reduction of $2.2 billion during the same period. In addition to Hospital Cost Containment, these bills include the Administration supported portions of H.R. 7200 and legislation to reauthorize elementary and secondary education programs.

I have made it a matter of overriding concern to mount a tenacious campaign to reduce improper and unnecessary expenditures. And in the last 17 months we have not only systematically begun to diagnose the problem but we have made progress with the cure. For example:

- A number of trends involving waste in HEW programs are pointing in the right direction:
  - Payment error rates in the SSI program are declining, from 7.1 percent in December, 1976, to 5.2 percent in September, 1977.
  - Payment error rates in the AFDC program are declining, from 8.5 percent in December, 1976, to 8.4 percent in December, 1977.

- -- Since we have begun a sustained effort to clean up the Federal student loan programs, the number of defaulters put in repayment status each week has more than quadrupled from fewer than 300 to an average of 1200 individuals.

- As a result of Departmental initiatives, we should eliminate more than a quarter of a billion dollars in waste in the 18 month period ending October 1, 1978. Savings include:

  - -- $93 million in SSI as a result of error rate reduction;
  - -- $50 million in AFDC as a result of error rate reduction; and
  - -- $50 million in the Basic Educational Opportunity Grant program through improved techniques in validating applicants' financial statements; and
  - -- Over $50 million in other reductions.

- We have undertaken innovative new programs to move systematically against fraud and abuse;

  - -- Project Match uses computer techniques to find Federal employees (both military and civilian) who are improperly receiving welfare benefits. We have already made more than 30,000 matches, and, of the first 1600 cases given careful review, more than 400 individuals were found to be either totally ineligible or receiving overpayments.
  - -- Operation Cross-Check uses computer techniques to identify those on the Federal civilian payroll who have not paid back Federal loans. More than 6700 possible defaulters have been identified, and, out of 317 defaulters in HEW alone, over half are now in repayment status (others are, for example, dead or bankrupt).
  - -- Project Integrity uses computer techniques to identify physicians and pharmacists in the Medicaid program who have been filing improper bills. Out of 2400 high priority cases, 517 are in full field investigation and, in the short time this program has been operating, these investigations have resulted in nine indictments, three convictions and the referral of 54 other cases to prosecutors.

In sum, a carefully coordinated and cooperative strategy developed jointly by the Congress and the Executive will yield the greatest results in an effort that must succeed -- the effective management of vital social programs with a minimum of fraud, abuse and waste.

Such a strategy does not include arbitrary cuts that fail to address in an effective fashion the problem of eliminating unnecessary and improper HEW expenditures and that will have the primary effect of hurting our nation's vulnerable citizens. I urge you to reject such ill-considered proposals.

Sincerely,

Joseph A. Califano Jr.

Joseph A. Califano, Jr.

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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

June 6, 1978

MEMORANDUM TO: Acting Commissioner, Social Security Administration
Assistant Secretary for Education
Administrator, Health Care Financing Administration
Assistant Secretary for Health
Assistant Secretary for Human Development Services
Assistant Secretary for Management and Budget
Commissioner of Education
Inspector General

SUBJECT: Action Plans to Reduce Fraud, Abuse, and Waste

On April 25, I requested each Principal Operating Component (POC) of the Department to develop a plan to attack the problems of fraud, abuse, and waste in HEW programs that were identified in the Inspector General's first Annual Report. I have personally reviewed these plans and have considered your comments and those of the Assistant Secretary for Management and Budget and the Inspector General.

On the basis of this information, I have developed a detailed set of numerical targets for the reduction of fraud, abuse, and waste. The targets specify, in dollar amounts, the reductions that can be achieved in problem areas identified in the Inspector General's report, and in other problem areas that have come to light. Each of you will be responsible for meeting or exceeding these targets in the programs you administer. Attached to this memorandum is a list of these targets and related assignments.

I consider your efforts to achieve these goals to be of the highest priority. Fraud, abuse, and waste deprive this nation's most needy and vulnerable citizens of essential benefits, waste tax dollars, and erode public respect for the institutions of government. The reductions that can be achieved in these areas are a critical part of our ongoing efforts to discharge our public responsibilities with efficiency and integrity, and to demonstrate that compassionate social policy is consistent with strong, effective management.

In developing these numerical targets, the figures in the Inspector General's report were carefully examined and each of you has been given an opportunity to review, comment on and assess the basis for the numbers. As a result of that examination, the Inspector General has reduced some items and increased a few; overall he has reduced his estimate of the amount of fraud, abuse, and waste by $838 million. Roughly half of this reduction is attributable to errors, due in part to unintended double counting. The other half of this reduction is attributable to newly available data that led the Inspector General to lower his original estimates. I have attached an explanation of these changes.

Even as revised, however, the overall estimate of the amount of fraud, abuse, and waste -- ranging from $5.5 billion to $6.5 billion in FY 1977 -- demands further, urgent and tenacious action by the Congress and by the Department. Of the $5.5 to $6.5 billion, the Inspector General has reported more than half of the losses -- ranging up to $3.79 billion -- can only be attacked through new legislative authority, additional resources, or, in some cases, through improved understanding after further analysis and study.

We intend to move vigorously now to stem the losses that the Inspector General estimates are subject to attack under current law and presently available resources. If we do not move vigorously to stem these losses, they will only grow, year after year, because of inflation, growth in the number of people served by HEW programs as a result of demographic, economic and legislative changes, and inclusion of programs not reviewed in the Inspector General's Report that I have asked him to include next year.

In close consultation with the Inspector General and the Assistant Secretary for Management and Budget, each of you has set ambitious but realistic targets that acknowledge human nature, the reality that there is no such thing as a perfect, error-free system, and the legislative and operational complexity of the programs for which you are responsible. Over a three year period, the Department seeks, as developed by you and summarized below, to recover almost 2/3 of the $2.74 billion in losses that we can attack under current law, a target that the Inspector General believes would be an outstanding accomplishment in public management.

For Fiscal Years 1979 through 1981, the numerical targets and related assignments in your action plans call for reductions of:

-- a total of $1.1 billion in 1979;

-- a total of $1.7 billion in 1980;

-- a total of $2.2 billion in 1981.

Because these projected savings targets will be affected by future changes in law and available appropriations, they will periodically be adjusted to incorporate such changes.

As the Inspector General also noted, elimination of much of the waste and abuse will require cooperative action by the Congress or additional resources to better police administrative performance in HEW. For example, the Congress is currently considering several pieces of legislation, most importantly Hospital Cost Containment legislation, which would accelerate the Department's efforts to eliminate fraud, abuse, and waste. If the Cost Containment bill and other pending legislative items become law, we estimate that the following additional savings can be realized:

-- a total of $ .84 billion in 1979;

-- a total of $2.19 billion in 1980;

-- a total of $4.04 billion in 1981.

As study and understanding proceed, to the extent that fraud, abuse, and waste can be reduced only through further legislative change or additional resources, I expect you to incorporate the initiatives necessary to achieve these savings in both your fiscal 1980 legislative program recommendations and your fiscal 1980 budget requests.

This priority effort to focus on the problems identified in the Inspector General's report should intensify and build on the many other important management initiatives we have begun over the past sixteen and one-half months. These include:

- Project Integrity, which uses computer techniques to screen Medicaid claims of doctors and pharmacists for fraud, abuse, and error. During the next twelve months, these efforts will be expanded to include such other providers as dentists and clinical laboratories.
- Project Match, which matches payrolls and welfare rolls to identify individuals improperly receiving cash assistance.
- Operation Cross-Check, which uses computer techniques to identify government employees who have defaulted on student loans.

- The reorganization that joined Medicare and Medicaid administration under the Health Care Financing Administration in order to manage more effectively the Federal health dollar and to reduce fraud, abuse, and error.
- The reorganization and consolidation of the student assistance programs to put them on a sound financial footing;
- Consolidation of all cash assistance programs under the Social Security Administration;
- Timely development of criteria for the establishment of State fraud and abuse units in Medicare and Medicaid as required by the Congress;
- Tightened control over grants and procurements;
- Development of major new accounting and quality control systems in Medicaid and Social Security benefits aimed at reducing error rates;
- Institution of a major initiatives tracking system to monitor departmental progress against specific measurable indicators of program performance, including the reduction of error rates;
- Proposing major welfare reform legislation that would consolidate all cash assistance programs on a single computer system to reduce fraud, abuse, and error.

As the Inspector General, the Assistant Secretary for Management and Budget and I have indicated to you, we realize that there is no way to totally eliminate every aspect of fraud, abuse, and waste in HEW programs. With many millions of recipients receiving monthly payments, with eligibility systems administered through hundreds of offices, and with eligibility dependent upon the willingness of individuals to report changes in their status, errors and losses, whether in private or public operation, are inevitable. Moreover, many of the programs that we fund are administered by States, localities, or private institutions, whose management systems are not under our control. At the same time, however, there are numerous steps that we can take -- both on our own and in cooperation with other institutions -- to reduce significantly the amount of fraud, abuse, and waste in HEW programs.

I am asking that on or before June 23, 1978, you submit to me an action plan which outlines the steps you will take to achieve the targets that have been established. This plan should include a timetable, the measures you will use to demonstrate your progress, and quarterly milestones in terms of these measures. I am also asking that you identify any other areas that you believe are prone to fraud, abuse, and waste, and provide action plans for these areas as well. As new legislation is enacted and budget decisions are made which enable us to take more effective measures to reduce fraud, abuse and waste, your plans and reduction targets will be revised accordingly.

In addition, on the 15th day following each quarter (beginning with the quarter ending September 30, 1978), please submit to the Assistance Secretary for Management and Budget a status report indicating your progress compared with the targets. Within ten days thereafter, I will expect him to submit to me a summary of all POC quarterly reports.

The estimates established by the Inspector General do not embrace programs administered by the Office of Human Development Services. The administrative structure of these programs is such that a longer term audit process will be required to determine the incidence of fraud, abuse, and waste in these programs, and to establish meaningful targets for reducing any losses. Accordingly, I am asking the Assistant Secretary for Human Development Services to work with the Inspector General and the Assistant Secretary for Management and Budget to accelerate the audit process and other control mechanisms. I shall expect to receive an action plan for this effort on July 14, 1978, and quarterly reports beginning with the partial quarter ending September 30, 1978.

I know of no aspect of this Department's activities that is of more critical importance than the effective management of our programs. As I have said on numerous occasions, our compassion must be disciplined by efficiency and competence. This Department's capacity to provide urgently needed assistance to millions of vulnerable people will be directly enhanced by reducing fraud, abuse, and waste in our programs. I expect each of you to place the highest priority on reaching and, if possible, surpassing these numerical targets.

Joseph A. Califano Jr.

Joseph A. Califano, Jr

Attachment

cc: Heads of OS Staff Offices
Principal Regional Officials

June 6, 1978

### EXPLANATION OF $838 MILLION REDUCTION
(Millions of Dollars)

| ITEM | ORIGINAL ESTIMATE | IG ERROR | NEW DATA SUBMITTED BY POC | TOTAL REVISION | EXPLANATION | REVISED ESTIMATE |
|---|---|---|---|---|---|---|
| Savings from Medicaid/Medicare Common Audit | $ 58 | | -$ 17 | -$ 17 | Revised estimate. | $ 41 |
| Increased Home Care for Renal Dialysis Patients | 153 | | - 61 | - 61 | More patients are on home dialysis than original estimate showed. | 92 |
| Medicare Provider Overpayment | 141 | -$141 | | - 141 | These sums were recovered. | 0 |
| Excess Hospital Beds | 1130 | | - 236 | - 236 | Cost to maintain is less than IG estimate. | 894 |
| Unnecessary Surgery | 655 | | - 55 | - 55 | Revised estimate. | 600 |
| Excessive Physician Costs | 73 | | - 33 | - 33 | Revised estimate. | 40 |
| X-Rays Genetic Defects | 84 | - 84 | | - 84 | Revised estimate. | 0 |

| ITEM | ORIGINAL ESTIMATE | IG ERROR | NEW DATA SUBMITTED BY IOC | TOTAL REVISION | EXPLANATION | REVISED ESTIMATE |
|---|---|---|---|---|---|---|
| AFDC Erroneous Payments | $490 | | -$26 | -$26 | More recent data | $462 |
| AFDC Fraud and Abuse | 145 | -139 | | - 139 | Double count; amount is included in Erroneous Payments. | 6 |
| SSI Erroneous Payments | 310 | | - 18 | - 18 | More recent data | 292 |
| SSI Overpayments to Nursing Home Residents | 23 | - 23 | | - 23 | Double count; amount is included in Erroneous Payments. | 0 |
| National Direct Student Loan Program | 49 | | + 20 | + 20 | New data shows more leakage through excessive cash balance. | 69 |
| OE-GSLP Fraud and Abuse | 187 | - 44 | | - 44 | Double count; amount is included in default estimate. | 143 |
| Unmet Audit Needs | 173 | | + 15 | + 15 | Increased number of audits will uncover additional disallowed costs. | 188 |
| Other | 118 | | + 6 | + 6 | | 124 |
| | | | | $836 | | |

## TARGETS TO REDUCE FRAUD, ABUSE, AND WASTE IN HEALTH CARE FINANCING ADMINISTRATION (HCFA) PROGRAMS

Included below are the HCFA targets to be reached as part of the Department-wide objective to reduce fraud, abuse, and waste. Targets 1 through 7 are those that are planned to be achieved within current authority or resources (including resources requested in the FY 1979 President's budget). These are either (a) directed specifically toward problem areas identified in the Inspector General's report, or (b) directed more broadly at controlling Medicare and Medicaid costs.

Reduction Goals (exclusive of cost)
(Dollars in Millions)

| | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| 1. Ineligibility, errors, third-party liability... | $272 | $538 | $797 |
| 2. Fraud and Abuse......... | 99 | 116 | 127 |
| 3. Audit and cost reviews.. | 17 | 17 | 17 |
| 4. PSRO hospital review.... | 92 | 134 | 136 |
| 5. PSRO review of x-rays... | -0- | 1 | 6 |
| 6. Lower limits for routine hospital costs (Section 223)................... | 50 | 50 | 50 |
| 7. Penalties in Medicaid... | -0- | 252 | 375 |
| Totals.............. | $530 | $1,108 | $1,508 |

Achievement of the first four of these objectives is already subject to Departmental monitoring under the Major Initiatives Tracking System. However, if there is any slippage in attaining these goals, it should be immediately noted and an analysis and action plan prepared to correct the situation.

Definitive data sources and indicators for measuring achievement of each of the above reduction goals and for tracking costs have not yet been developed. These should be submitted to the Assistant Secretary for Management and Budget by June 23, 1978. For the target related to unnecessary x-rays, HCFA should coordinate with PHS' plans for developing new standards for x-ray use.

The estimate for the impact of section 223 of P.L. 92-603 is tentative and will be revised based on the pending decision on what limits will be effective in July.

The 1979 budget assumed legislation imposing a penalty on States which failed to meet quality control targets. Currently, discussions are underway with States to develop improved quality control regulations which may replace the legislative proposal. This target will be revised when these negotiations are completed.

For the following areas, future targets depend on (a) the passage of authorizing legislation or, as applicable, (b) appropriation of funds for any necessary new resources. (Goals identified below are tentative savings, exclusive of costs.) For these items, plans are not required at this time. Once legislation is enacted or resources are appropriated HCFA should prepare plans in coordination with the Office of the Inspector General and the Assistant Secretary for Management and Budget.

| 8. Hospital Cost Containment legislation- | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Effective date (Administration's bill) 10/1/78: | $730 | $2,030 | $3,760 |

- o The plan should specify data sources and indicators for measuring planned reductions. This target will be adjusted to reflect legislation finally enacted by Congress.

| 9. Ancillary hospital costs - | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Pending legislation assumed effective 10/1/78........... | $40 | $44 | $48 |

- o Ancillary hospital costs (i.e., lab, x-ray) are those for which charges are customarily made in addition to routine service costs. The plan should include legislative proposals to be considered as part of the FY 1980 program. The effect on the target should be estimated.

| 10. Renal dialysis - | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Recently passed legislation Requires Presidential signature effective date 10/1/78....... | $14 | $40 | $55 |

- o The plan for implementing this legislation should include (a) specific actions that will be taken to encourage an increase in home dialysis and (b) data sources and indicators that will be used for measuring reductions and related costs.

| 11. Unnecessary beds - | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Pending legislation assumed effective 10/1/78............ | -0- | $35 | $112 |

- o The target assumes the passage of pending legislation which limits federal participation in capital expenditures, thereby restricting amounts spent for unnecessary beds.

The target also includes new initiatives which would provide project grant support for converting or closing hospital beds, such as funds for retraining and meeting mortgage payments. The targets could vary, however, depending upon Congressional action with respect to legislation in this area and administrative steps taken within the Department. Thus, the plan should include:

a. legislative proposals that should be considered as part of the FY 1980 program.

b. a plan for coordination with the Health Resources Administration regarding their plans to reduce excess hospital beds.

c. data sources and indicators HCFA will use in measuring planned reductions in Medicare and Medicaid expenditures for unnecessary hospital beds.

For the following areas, the Administration is currently developing proposed legislation. Once authorizing legislation is passed, HCFA should prepare plans to achieve the following reduction targets.

| 12. Common audit - | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Proposed legislation. Department to transmit to Congress. OMB clearance received.................... | $41 | $41 | $41 |

o The plan should specify data sources and indicators for measuring planned reductions and tracking related costs.

| 13. Provider Integrity - | FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Proposed legislation undergoing OMB clearance... | $10 | $20 | $31 |

OMB is reviewing proposed legislation which would impose civil money penalties on fraudulent providers.

For the following areas, targets will be assigned at a later date, based on plans and decision papers which HCFA should submit to the Assistant Secretary for Management and Budget by June 23.

14. Excessive nursing differential

o Medicare currently pays 108.5 percent of the average hospital nursing care costs allocable to Medicare patients based on the presumption that elderly patients require more intensive nursing care than other patients.

An attempt by the Department to eliminate the differential was enjoined in a suit brought by the American Hospital Association (AHA) on the ground that the Department had not conducted sufficient study of the impact of withdrawing the differential. HCFA should submit an options paper which discusses the validity and size of the differential, legal issues, and the cost-benefit of new research.

15. Unnecessary surgery

    o A preliminary estimate indicates that 17% of all surgical procedures funded by Medicare and Medicaid are unnecessary. HCFA should submit a plan for (a) developing an adequate data base for estimating loss and measuring reductions in the rate of surgery for HCFA beneficiaries; and (b) developing indicators for measuring reductions in surgery rates for at least several specific procedures most likely to be performed unnecessarily as determined through PSRO reviews.

16. Unnecessary hospital stays due to inpatient surgery

    o Unnecessary hospital stays are directly affected by PSRO actions taken against unnecessary surgery in hospitals. HCFA should include its plan to reduce expenditures attributed to unnecessary hospital stays as part of its plan to reduce unnecessary surgery in general.

17. Additional reduction goals not included in any of the above that would complete a comprehensive HCFA plan to reduce waste, abuse, and fraud.

## TARGETS TO REDUCE FRAUD, ABUSE AND WASTE
## PUBLIC HEALTH SERVICE

### PHS Error Reduction Target

While the PHS is not being assigned a specific reduction target, PHS is responsible for taking the lead in developing action plans to achieve the following reductions and coordinating them with HCFA. (HCFA will include these reductions in its Medicaid and Medicare targets.)

### Unnecessary Beds

-- A reduction target of $35 million in 1980 and $112 million in 1981 has been assigned to HCFA, assuming passage by October 1, 1978 of the proposed grant program to assist hospitals to close or convert existing beds.

-- No specific reduction targets are being assigned to reflect current initiatives in certificate-of-need reviews, reviews of capital expenditures under section 1122 (of the Social Security Act), and the impact of national planning guidelines or inter-Departmental agreements on reducing excess beds. These actions are geared to preventing further increases, but development of a method for measuring the impact of these initiatives is essential.

-- By June 23 PHS should submit a plan with a specific time-table for:

  - continuing to track the number of excess beds in the country;
  - working with HCFA to track the impact of current and proposed initiatives to avoid additional or eliminate excess beds. (Each element should be separately tracked.)
  - recommendations for any further legislative proposals that should be considered as part of the FY 1980-1982 program.

### Unnecessary X-rays

-- FDA should develop a plan encompassing its existing initiatives to eliminate unneeded X-rays, which will result in a reduction target of $1 million in 1980, and $5 million in 1981 for Medicare and Medicaid.

-- Achievement of the current reduction objectives is to be subject to monitoring under the Major Initiatives Tracking System, the vehicle currently used in the Department to monitor performance against specific objectives. However, if there is any slippage in attaining these goals, the Secretary and Assistant Secretary for Management and Budget should be immediately alerted and an analysis and action plan prepared to correct the situation.

-- As part of its FY 1980-1982 budget program, PHS should submit decision papers outlining any new initiatives to make additional savings, but which require decisions concerning increased staffing.

Grant and Contract Procedures

Although the IG did not include this area in his First Annual Report, current audit activities indicate that research grants and contracts procedures are in need of review. PHS is in the process of developing an action plan to correct deficiencies in this area. This plan should concentrate on improving competition and avoiding conflict of interest in the grants and contracts awards process, and PHS should closely coordinated its activities with ongoing efforts of the Assistant Secretary for Management and Budget and the Office of General Counsel. The PHS action plan should also include an analysis of options regarding organization and procedural changes related to improving grants and contracting procedures.

## TARGETS TO REDUCE FRAUD, ABUSE, AND WASTE IN SOCIAL SECURITY

AFDC and SSI Error Reduction Goals Which are Planned to be Achieved Within Existing Resources:

| | 1979 | 1980 | 1981 |
|---|---|---|---|
| AFDC.............................. | $ 89 | $110 | $123 |
| Error target.................... | 7.3% | $7.0% | 6.9% |
| SSI............................... | $100 | $130 | $160 |
| Error target.................... | 4.3% | 3.9% | 3.5% |

Achievement of these objectives is already subject to the Major Initiatives Tracking System and the Department's cost saving monitoring efforts. However, if any slippage in attaining these goals becomes apparent, the Assistant Secretary for Management and Budget should be immediately alerted and an analysis and action plan prepared to correct the situation.

Additional Efforts

A target is not being assigned at this time to achieve additional AFDC savings based on the proposed management initiatives and impact of pending legislation you identified. SSA should prepare for review a more complete analysis and action plan for each proposed initiative and legislative option:

-- include in your analysis net savings resulting from legislation providing incentives to States to expand their use of ADP systems and the impact of the proposed legislation to standardize the work expense rules.

-- your plans for improving AFDC program operations should be developed with the objective of achieving at least a five percent payment error rate by 1981.

A specific cost savings target will not be assigned for social security payments until better data are available which isolate the degree of error and the factors which cause it. SSA's plan to establish new Title II quality assurance systems must be maintained on schedule and the Assistant Secretary for Management and Budget should be kept fully informed of all progress. In the interim SSA should provide (1) an analysis of identified overpayments which are not recovered by SSA and (2) include in its 1980 budget submission, options and resource requirements for expanding quality control activities in other known error prone processes--e.g., expanded initial disability claims reviews and continuing disability investigations.

## TARGETS TO REDUCE FRAUD, ABUSE, AND WASTE IN OFFICE OF EDUCATION PROGRAMS

Achieve the following minimum reduction goals given current law and resources:

| | (dollars in millions) | | |
|---|---|---|---|
| | FY 1979 | FY 1980 | FY 1981 |
| Student Financial Assistance.......... | $284 | $320 | $345 |
| Title I ESEA.......... | 22 | 34 | 34 |
| Total Reduction.... | $306 | $354 | $379 |

The action plan for reducing fraud, abuse and waste in education programs should include:

- A timetable for completing the major action steps required to achieve these reductions. This timetable should incorporate activities for existing initiatives in student aid.
- A definition of the measures that OE will use to gauge progress against the targeted reductions and quarterly targets of performance using those measures.
- A description of any other ongoing initiatives to avoid waste.
- A decision paper which outlines in detail, alternative ways for eliminating the backlog of defaulted Guaranteed and Direct Loans over a four to five-year period. Include a description of the additional resource requirements under each alternative, along with an analysis of the expected results of those additional resources.
- Additional reductions should be indentified based on enactment of pending legislation for Title I ESEA which would increase funds for State administration which could be used for monitoring, auditing, and other compliance activities.
- Briefing papers describing any other new initiatives for reducing fraud, abuse, and waste, including plans to implement the new activities. These plans should include a description of additional resource requirements and an analysis of their impact on the problem areas.

## TARGETS TO REDUCE FRAUD, ABUSE, AND WASTE IN ADMINISTRATIVE AND SUPPORT COSTS

The action plan for eliminating unreasonable administrative and support costs (indirect costs) should include:

- Improved approaches for estimating: 1) total indirect cost reimbursements (i.e., in contracts and discretionary and formula grants); and 2) the size of unreasonable indirect costs.
- A commitment to achieving the following reductions which are minimum goals given current law and resources.

| | (dollars in millions)<br>FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Reductions in Indirect Costs....... | $15 | $16 | $17 |

- A timetable for completing the major action steps required to achieve these reductions.
- A definition of any measures, besides disallowances, which will be used to gauge progress against eliminating unreasonable indirect costs, and quarterly targets of performance, using disallowances and these other measures.
- Costs associated with major action steps.
- A brief discussion of how the goals relate to the Major Initiatives Tracking System.
- Decision papers detailing any new resources the Assistant Secretary for Management and Budget needs to do a better job in eliminating unreasonable indirect costs, along with an analysis of the expected results these additional resources will produce.

## TARGETS TO REDUCE FRAUD, ABUSE, AND WASTE BY CONDUCTING MORE INTENSIVE AUDITS AND FINANCIAL REVIEWS

The action plan for conducting more intensive audits and financial reviews should include:

- A commitment to achieving the following reductions which are minimum goals given current law and resources.

| | (dollars in millions) FY 1979 | FY 1980 | FY 1981 |
|---|---|---|---|
| Increased Audits and Financial Reviews.. | $15 | $30 | $30 |
| AFDC Fraud and Abuse. | $12 | $12 | $12 |
| Medicare/Medicaid Fraud and Abuse.... | $10 | $15 | $20 |
| Total | $37 | $57 | $62 |

- A timetable for completing the major action steps required to achieve these reductions.

- Decision papers detailing: 1) how the Department might reallocate its existing resources to increase the impact of its audit and financial review efforts; and 2) the new resources the Inspector General needs to do a better job in fighting fraud, abuse, and waste, along with an analysis of the expected results the IG will achieve with these additional resources.

# APPENDIX 5.—LETTER TO STUDENT FINANCIAL AID OFFICERS CONCERNING BEOG APPLICATION REJECTIONS

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
BUREAU OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

September 1978.

Dear Colleague:

As many of you are aware, there have been some major difficulties in the processing of 1978-79 Basic Educational Opportunity Grant applications. As a result, about 500,000 students who applied for Basic Grants have not been able to have an eligibility index calculated. While this problem affects all schools to some extent, those institutions where Basic Grant recipients represent a major portion of their student body suffered a major impact which resulted in both a loss of enrollment and cash flow problems.

This situation was brought to our attention in a meeting held on September 9, 1978 in Atlanta, Georgia and based on the information obtained at that meeting, special emergency procedures were developed to assist institutions who were experiencing serious problems.

These special procedures were announced and discussed in detail in meetings held on September 16, 1978 in five cities: Philadelphia, Atlanta, Chicago, Dallas, and Los Angeles. All institutions participating in the Basic Grant Program were invited to attend and approximately 900 schools were represented at the meetings. The purpose of the meetings was to both announce the special procedures and to provide institutions with information they could use to assist students in getting their applications processed and some determination made as to their eligibility status for Basic Grants.

Attached to this letter are all of the materials which were presented and discussed at those meetings. These materials are:

Attachment A -- Special Procedures
Attachment B -- Questions and Answers on the Special Procedures
Attachment C -- Helpful Hints (the most common problems encountered in getting a Basic Grant application processed)
Attachment D -- The most common edit messages (what they are, why they were used, what action is necessary to correct the problems)
Attachment E -- 1978-79 Validation Procedures
Attachment F -- Key Addresses and Phone Numbers
Attachment G -- Request for Duplicate Form

Also included in this package is the booklet, "Determination of Eligibility Index for 1978-79".

Regardless of your institution's decision with respect to participating in the special procedures, all financial aid officers should become familiar with the other materials in order to be in a position to provide maximum assistance to their students who may be confused in their attempts to have a Basic Grant application processed. Therefore, we urge you to read the materials carefully and use them to your best advantage.

Many questions were raised at the meetings regarding how and why this situation occurred and the following information provides you with the background of the circumstances which led to this problem.

In October of 1977, we received a report which analyzed the application correction process in the Basic Grant Program. This report indicated that there may be a significant amount of abuse in this process and as much as $100 - $150 million could have been incorrectly awarded as a result.

Based on this report as well as our growing concerns regarding the validity of student reported data, it was decided both to make major changes in the application processing system and to initiate the validation procedures. This decision resulted in some delays in the implementation of the processing system and also caused the system to be phased in over a period of months. Therefore, the system was implemented in four stages: processing of Basic Grant applications; processing of data transmitted from the multiple data entry processors; selection of students under validation; and the processing of corrections. Because of this phased approach necessitated by the late changes in the system, we were not able to process corrections until May.

Unfortunately a number of other complications occurred which dramatically impacted on the corrections process. As part of our efforts to ensure the validity of student reported information, the edits in the processing system were considerably strengthened. These edits to identify incomplete or inconsistent information on the applications and "reject" them until the student verifies and/or corrects the data or provides the missing information. These strengthened edits considerably increased the number of students whose applications were returned to them for further action.

A second complicating factor was the quality of the information collected on the forms used by the multiple data entry (MDE) agencies. Under this process, students could complete the forms used by the

College Scholarship Service, the American College Testing Program, and the Pennsylvania Higher Education Assistance Agency to apply for Basic Grants. Each of those forms includes the data items necessary to calculate a Basic Grant eligibility index and those specific items are transmitted to the Basic Grant processor for this calculation. While these other forms collect the same types of information as the Basic Grant form, these agencies also collect significantly more data and the formats are different. As a result, many students appear to have been somewhat confused about the proper way to fill them out. Improperly completed forms coupled with the tightened edits in the Basic Grant system resulted in a much higher than anticipated reject rate especially since over 80 percent of all Basic Grant applicants did not file a Basic Grant application but used one of these other documents.

Therefore, when the corrections process was operational in May, there was a large backlog of corrections already on hand. We must accept full responsibility for our failure to move quickly enough to expedite the processing of those corrections. While we did begin taking action to hire additional staff, work double shifts with overtime, and install additional phone lines, these steps were not taken quickly enough to relieve the situation until the end of the summer.

At this time, we can report that the time for processing corrections is 11-14 days between the date of receipt at the processing center and the date that the reprocessed SER is mailed back to the student. In addition, the additional phone lines which have been installed increased the phone capability to a point where between 80 and 90 percent of all calls are completed.

Below are some general comments about the Basic Grant application processing system, our experience to date and the materials included in this package.

1. Please review all of the materials carefully.

2. If you do decide to participate in the special procedures, please follow the instructions carefully and completely.

3. Attachments C and D will be useful to all financial aid officers since they provide good information on how to avoid problems in the processing of Basic Grants and how to correct problems which may occur.

4. Attachment E is an update to the Validation Handbook which was distributed last March. A complete final Handbook will be issued this fall.

5. Attachment F provides key addresses and phone numbers. Please become familiar with these and use them appropriately.

6. Attachment G is a form which should be used to request duplicate SERs including those involving a change of address. Requests for duplicates should be mailed to Basic Grants, P.O. Box T, Iowa City, Iowa 52240. This is a new Post Office Box and is only for requests for duplicates. We urge you to reproduce this form and encourage your students to use it, especially if a change of address is involved. Remember, we cannot process duplicates without key identifying information on the applicant and we cannot accept requests with a change of address unless they are in writing. This form ensures that all of the information needed is provided.

7. An analysis of rejections shows that almost 90 percent of all rejects are for one of these reasons; lack of signature, lack of social security number, or inconsistencies in income information.

We hope that this information will be useful to you and appreciate your continued cooperation and support during this somewhat difficult period.

Sincerely,

Leo L. Kornfeld
Deputy Commissioner for
Student Financial Assistance

Attachment A

## Special Basic Educational Opportunity Grant Procedures

### A. What is the Problem?

Many institutions are currently experiencing severe financial problems as well as a reduced enrollment because a significant portion of their student body have not been able to get their application through the Basic Educational Opportunity Grant processing system. In fact, of the 3,000,000 students who have applied for a Basic Grant for the 1978-79 academic year, over 500,000 have not had any determinations made regarding their financial eligibility or ineligibility for aid because they provided inadequate or inconsistent information when they applied.

While this problem is one which involves every institution to some extent, a number of schools have been dramatically affected because the students who have not yet been able to get an eligibility index calculated represent a major percentage of their enrollment.

In addition, it appears that many of these students are confused by the fact that their applications were not acceptable and may even believe that they are not eligible for Basic Grants. Some may even have gotten so frustrated by the rejection of their applications, in spite of their attempts to provide the correct information, that they may have given up.

## B. What is the Office of Education doing about it?

The Office of Education finds this situation unacceptable and has initiated a number of special efforts to deal with this major problem. These are:

1. The conducting of special training sessions for those institutions having the most severe problems;

2. The development of materials designed to assist institutional financial aid officers in their efforts to counsel students who are having problems with the application processing system and the distribution of these materials to all schools participating in the Basic Grant program; and,

3. The establishment of special procedures allowing institutions, under certain specific conditions, to calculate a student eligibility index and make a partial payment to the student based on that preliminary eligibility index.

## C. How do these special payment procedures work?

First, it should be noted that these procedures were designed to help only those schools which are in severe financial difficulty and/or in grave danger of losing a significant percentage of their enrollment because of the problems their students are having in the processing of their applications for Basic Grants. For the vast majority of institutions, these extraordinary procedures may not be necessary.

Second, these procedures, which are outlined below, are emergency procedures only and they will be effective between September 16, 1978 and October 31, 1978.

Third, these procedures do not in any way affect institutional funding status. Only those schools that are eligible and authorized to make Basic Grant payments may participate in these special procedures.

Finally, it is essential that schools wishing to use these procedures understand them completely.

The procedures are as follows:

1. Any institution wishing to participate in these emergency procedures must notify the Office of Education, in writing, of their intention to do so. A sample letter is attached and may, in fact, serve as the official notification. This letter must be mailed to:

Program Review Branch
Division of Certification and Program Review
Bureau of Student Financial Assistance
U.S. Office of Education, DHEW
400 Maryland Avenue, S.W.
Washington, D.C. 20202

and it must be sent certified mail/return receipt requested. The receipt must be maintained in the institution's records for purposes of program reviews and audits. Since OE will not acknowledge receipt of the notification letter, institutions will not need to wait for further word from OE before inititating these special procedures.

2. Once the notification letter has been sent, the school may begin the new procedures for all of their students who have applied for Basic Grants and have received a Student Eligibility Report which requires further action on the part of the student before an eligibility index can be calculated. These procedures do not apply to students who are making an initial application for a Basic Grant or making a correction on an SER upon which an eligibility index is calculated, but only to those students who have received an SER with no eligibility index calculated for the 1978-79 academic year.

3. When a student who has received an SER with no eligibility index calculated, comes into the school, the financial aid officer should review the messages on the student's SER to determine what action the student needs to take in order to have the eligibility index calculated. The information available from OE which describes the most common edit messages and how to correct the problems on the student application may be helpful in this activity.

4. It is not required that the validation procedures be followed in their entirety as part of this activity. The institution must obtain documentation from the student which satisfies the financial aid officer that the corrections, verification, and/or additional information required of the student are accurate.

These supporting documents may include Federal tax forms (1040 or 1040A), W-2 forms, a statement from the student and his or parents regarding the amount of non-taxable income they received, etc. This documentation will enable the student to make the necessary corrections or to provide the required additional information noted on the SER.

5. All of the information on the SER should be reviewed carefully. (See "Helpful Hints," which is attached.) The financial aid officer together with the student, should make all necessary corrections to the SER and at the same time, they may change the student's address to his or her campus address so that when the SER is reprocessed it can be returned to the student where or or she is currently residing. The student's reprocessed SER may be sent back to the student at his or her address on campus and may not be addressed to any institutional office.

6. The financial aid officer should then tear off one of the copies of this SER which has been corrected and have the student (and his or her parents if the student is dependent) sign the certification on the reverse side of the corrected copy. The signed copy should then be brought back to the financial aid officer. The financial aid officer should make a copy of the corrected SER and keep it in the student's folder.

7. Upon receipt of the signed, corrected SER, the financial aid officer may calculate a preliminary eligibility index following the instructions issued by the Office of Education (see the 1978-79 Calculation of Basic Grant Eligibility Index Booklet). If, based on that preliminary calculation, the student is eligible for a Basic Grant award (with an eligibility

index below 1601) the institution may make a partial payment to the student as described in step number 8, below. However, regardless of the student's calculated preliminary eligibility index, the corrected SER must be mailed to:

Basic Grants
P.O. Box C
Iowa City, Iowa 52240

It is strongly recommended that the financial aid officer mail the corrected SER in order to ensure that it is properly submitted. Within three weeks after the corrected SER is mailed, the student should receive a reprocessed SER based on those corrections.

8. If an institution elects to make partial payments to otherwise eligible students with a preliminary eligiblity index of below 1601, it must:

a. Determine the student's scheduled award, based on the preliminary eligibility index and the student's cost of education, using the 1978-79 Payment Schedule;

b. Based on that scheduled award, determine the expected disbursement for the year and amount to be paid for the first payment period (i.e., semester, trimester, quarter or half year) and,

c. Pay the student no more than one-half of the award calculated for that payment period. The payment can be made either by crediting the student's account or paying the student directly to cover living expenses. The institution may make no further payments until the student submits a reprocessed SER.

d. When the student receives the reprocessed SER from the Basic Grant processor, he or she should immediately present that SER to the financial aid officer. The financial aid officer should first review the SER against the corrected copy in the student's file and, if the data are the same, should then calculate the actual scheduled award and expected disbursement by repeating steps a and b above. Assuming that the eligibility index calculated by the financial aid officer is the same as that calculated by the Basic Grant processor, the remaining portion of the student's award may be paid.

e. If based on this final calculation, it is determined that the student was over paid or under paid based on the institution's preliminary eligibility index calculation, adjustments must be made in subsequent pyaments for 1978-79. These adjustments should be made within the payment period but must be made before the end of the academic year.

Example: Following steps a and b, the school determines that the student is entitled to $1000 for the year and $500 for the semester. Therefore, based on the one-half rule in step c, the school credits the student's account for $250. When the reprocessed SER is brought back to the financial aid officer, it shows that the student was only eligible for $800 for the year or $400 per semester. Since the student has already received $250 for the first semester, he or she is only entitled to receive an additional $150 for that term ($250 + $150 = $400). For the second term, if enrolled, the student may receive the second $400.

NOTE -- Institutions that elect to use this procedure are urged to establish a systemmatic method for calling students into the office when sufficient time has elapsed to obtain a reprocessed SER.

D. What Liability for overpayment does the school assume under this procedure?

Institutional liability for overpayments basically extends to three areas:

1. The institution made a partial payment to a student based on an incorrectly calculated preliminary eligibility index and the institution is unable to recover the funds from the student.

2. The institution did not have sufficient documentation to accept the student's corrected data but payment was made to the student through the special payment procedure. In these cases, an institution may be liable if there is a pattern of insufficient documentation and/or if other relevant information in the institutional files disagrees with that provided by the student and upon which a preliminary eligibility index calculation was made.

3. The institution pays the student more than one-half of the first payment period award before a reprocessed SER indicating the student's

eligibility index, is submitted by the student to the school and it is not possible to adjust subsequent awards.

E. What happens if a student drops out before the reprocessed SER is submitted to the school?

The school is not liable if a student receives a partial payment under these special procedures but drops out before he or she submits a reprocessed SER to the institution. The financial aid officer will determine whether or not some portion of the payment should be returned to the Basic Grant account as a result of the institutional refund policy and make any necessary adjustments to accommodate that situation.

If all other procedures described in Section C-8 are followed, the institution will not have to restore to the Basic Grant account payments made to students who drop out before a reprocessed SER is submitted. However, if the institution has miscalculated the preliminary eligibility index, the institution will be liable for that portion of the overpayment that was a result of this error.

F. How long are these special procedures in effect?

Institutions may calculate a preliminary eligibility index and make partial payments on the basis of a preliminary calculation through October 31, 1978. After that date, students may not be paid until a corrected SER with an eligibility index of below 1601 is calculated by the Basic Grant processing agent and submitted by the student to the financial aid officer.

G. What liability does the student have?

Students should be informed that if they receive a partial payment under these procedures and fail to submit a reprocessed SER to the institution before the end of the academic year, they will be liable for repayment of all Basic Grant funds received.

H. How are these partial payments to be reported on the Progress Report?

In cases where the institution must submit a Progress Report before a reprocessed SER is received, the institution should include the amount paid to that student on line 19a and include the student as a recipient on line 19b of that Progress Report.

The institution should attach to the Progress Report a list of the students who received a partial payment under these special procedures. The list should include the student's name, social security number, and amount disbursed. The total number on the list and the total amount disbursed should also be included.

No SER's should be sent in with that Progress Report for those students included on the list.

After the institution receives the reprocessed SER from the student, it should submit those SER's with the next Progress Report.

SEND TO:

Program Review Branch
Division of Certification and Program Review
Bureau of Student Financial Assistance
U.S. Office of Education, DHEW
400 Maryland Avenue, S.W.
Washington, D.C. 20202

________________________ located at ____________________________
institution address

________________________, __________________, _________ elects to
city state zip code

participate in the special payment procedures announced by the Office of Education on September 16, 1978. We have received and understand the materials which outline the procedures which are to be followed under this special arrangement these materials included a discussion of (1) the circumstances under which payments can be made, (2) the time frame covered by this special procedure, and (3) the liability assumed by institutions which participate.

________________________________
signature of institutional official

________________________
typed name

_____________________
date

Attachment B

## Questions and Answers

1. Could Basic Grant funds be used to replace institutional funds in a situation where an institution advanced credit to a student based on an expected Basic Grant award but the student dropped out before submitting an SER under the special procedures?

A. No. The only circumstances under which students may be paid Basic Grant funds without submitting an SER with an eligibility index calculated by the Basic Grant processor are spelled out in the special procedures. If a student has been extended credit by his or her school based on an assumption that a Basic Grant award will be forthcoming and that student fails to submit an SER to the school, no Basic Grant funds may be used to replace those institutional funds.

Of course, if an institution has extended credit to a student prior to the effective date of the special procedures and applies these special procedures to that student, partial payments may be made.

2. If an institution elects to participate in the special procedures, must it offer all students the opportunity to have a preliminary eligibility index calculated and partial award paid?

A. The decision to participate in these special procedures is solely that of the institution. Similarly, the institution may use its own discretion with respect to the students who may be paid under these procedures.

3. Can the special procedures be followed to make corrections on SER's submitted by students selected for validation?

A. No. The special procedures can only be applied in those cases where a student has no eligibility index calculated because of incomplete or inconsistent information.

4. Both CSS and ACT estimate an estimated Basic Grant award for students filing those forms. Rather than doing a calculation of the preliminary eligibility index, can the financial aid officer use that estimated award?

A. No. The information upon which that estimated award was based is most likely not to be the same data provided by the student on his or her corrected SER.

5. If a student receives a partial payment under the special procedures but graduates, transfers, or leaves school prior to submission of the reprocessed SER, can that student receive the remainder of his Basic Grant for that payment period?

A. If the student submits the reprocessed SER to the financial aid officer prior to the end of the academic year, he or she may receive the remaining portion of the Basic Grant award to which he or she was entitled even if the student is no longer enrolled.

6. What does an institution do if it disburses one-half of the amount a full-time student is entitled to receive in a payment period, and

the student drops to less than full-time status before the reprocessed SER has been returned to the institution? Must the institution recompute the second disbursement within the payment period to reflect the changed enrollment status?

A. Section 190.75(b)(94) of the current Basic Grant regulations provides that an institution may, but need not, recalculate a student's Basic Grant award if the student's enrollment status changes within a payment period. (Institutions must, of course, reflect the student's actual enrollment status in their calculations at the beginning of each payment period.) The special procedures, under which half of a payment period's award may be disbursed on the basis of an institutionally calculated eligibility index, should not be looked upon as requiring an institution to have two payment periods in an academic period which is a single payment period for students who are not being paid under the special procedures. Thus, the option to recompute for a change in enrollment status remains with the institution for students paid under the special procedures the same as for all other students. The option to recompute for a change in enrollment status should be applied consistently to all Basic Grant recipients at the institution, whether or not they are paid under the special procedures.

7. How does the special payment procedure work in a clock hour school? In other words, how much money can these schools initially disburse?

A. Clock hour schools follow exactly the same procedures as term institutions. First, the student's scheduled award and expected disbursement are determined based on the cost of education, preliminary eligibility index calculation, enrollment status, and length of enrollment. Then the institution determines how much the student would receive for the first payment period (i.e. first half of the school year). The amount of the partial payment which can be made under the special procedures is one-half of that first payment period's award.

8. If the parent/student sign the corrected SER before the October 31 deadline for special procedures, is this sufficient to meet the deadline, even if the check for partial payment to the student is not issued until after October 31?

A. Yes.

Attachment C

## HELPFUL HINTS

Below are listed the most common problems encountered by Basic Grant applicants in completing the processing cycle. They are not necessarily listed by order of importance.

INITIAL APPLICATION FILING:

1. Read and follow application instructions carefully.
2. Submit only one application.
3. Do not attempt to make corrections by refiling another application - make corrections on the SER.
4. Do not file a worksheet; it will not be processed.
5. Do not write notes on application form, because it delays processing. If the applicant has questions when completing the regular application, he should contact a financial aid officer.
6. Give permanent and complete mailing address.
7. An unofficial SER is the result of duplicate filing. It is a void SER and cannot be used to make corrections.
8. Fill in all blanks. Do not use N/A, none, or unknown.
9. Write legibly.
10. Do not include "cents amounts". Use dollar amounts only.
11. Retain the instruction booklet. It is needed if any corrections are to be made.

SER CORRECTION:

1. Review the SER as to correctness of all information. Make all necessary corrections, not just the requested information in Section 2.
2. Read the directions carefully on reverse side of SER.
3. Submit only 1 copy of the SER. Retain the other copies in case the SER is lost in the mail, or an error is made in making corrections.
4. Always provide signatures on the reverse side of SER. If it is a dependent applicant, the certification must be signed by both the applicant and one parent.
5. Do not use unofficial SER to make corrections. It is a void SER.
6. Fill in all boxes with "zero" if they do not apply to the applicant's situation. Do not use words such as "none", "unknown", or "N/A", etc.
7. Use dollar amounts. Do not include cents.

WRITTEN COMMUNICATION:

1. Always include full name, social security numbers, date of birth and hand written signature. Do not print the signature.
2. If parent information is to be altered, provide parent signatures.
3. Be sure corrections or correspondence are sent to Box C, Iowa City, Iowa 52240, not HEW, Washington, D.C.
4. Address corrections are best made on a SER form. Use only a permanent address. Do not request an address correction in care of a school, a church, or an organization.

PHONE COMMUNICATION:

1. Give name, social security number, and date of birth.
2. If questions concern corrections to the SER, applicant should have SER, tax forms, etc. available when speaking to the phone operator.

INCOME AND ASSET REPORTING:

1. Do not report the same amounts twice. (Most frequent error is reporting the same amount as both non-taxable and adjusted gross income.)
2. If applicant or parents filed a Federal Income Tax Report, adjusted gross income, income earned, tax paid and itemized deductions must be taken directly from the tax form. Do not report information from withholding statement.
3. If applicant or parent did not file Federal income tax report, adjusted gross income, earned income, tax paid, itemized deductions are entered as "zero"; employment income would be reported as non-taxable income.
4. If the applicant or parents had the IRS complete the income tax report, the resulting computer printout does not show tax paid. In this case subtract the amount refunded as shown on the computer printout from the amount withheld on the withholding statement to arrive at tax paid.
5. Do not report the same assets twice.
6. Separate home value from farm and business.
7. Do not include interest, insurance, taxes, etc. in asset debts.
8. Only report debts for which the asset was used as collateral.

STATUS:

1. Always follow the definition of "parent" on the form even if the student has filed a "statement of independence" with the school for other types of financial aid.
2. If no relationship exists with the natural parent, then the definition of "other parent" is based on the question: Are you receiving more than one-half of your support from someone other than your natural parent in 1978? Repeat 1978.
3. A correction application is issued if the applicant gave financial information (Section D or E) that does not correspond with answers to Section C (Status questions).
4. A correction application is issued if the applicant makes a status change by correcting boxes 13, 14, 15 of the SER. Do not attempt to make a status change by resubmitting a second application.
5. In the divorced-separated parent situation, report only one parent's information. It is usually the parent with whom the applicant resides.

VERIFICATION:

1. Verification is done by reviewing the information in Section 1 that is questioned in Section 2. If the information is correct, a check ( ) must be entered where a check ( ) is requested. If the information in incorrect, every question asked in Section 2 must be answered.

2. The entire SER should be reviewed for accuracy and all corrections should be made.
3. You cannot verify data and make changes to the same items at the same time.
4. Verification is required when:
   (a) the AGI is a negative amount or less than the total of the employment income(s).
   (b) no income is reported.
   (c) Debts are greater than the assets listed.
   (d) If corrections are made to previously verified data and new corrected data fails the edits.

Attachment D

## BEOG Program 1978-79 Academic Year
## Most Frequently Occurring Rejection Comments

| Comment | Reason | Action |
|---|---|---|
| 1. What is your Social Security Number? | Applicant did not indicate his Social Security Account Number. | Applicant must enter his SSN in Box 4 [illegible]tion 1 of the SER. |
| 2. You did not indicate citizenship status.... | Applicant did not indicate whether or not he is a U.S. citizen or a permanent resident. | [illegible] must enter "yes" or "no" in Box [illegible] of Section 1 of the SER. If "no" is entered, student is not eligible for BEOG. |
| 3. The amounts you have indicated for non-taxable income, adjusted gross income, income earned by parents, and U.S. income tax paid appear to be inconsistent.... | The combinations of two or more processing edits involving reported nontaxable income, adjusted gross income, combined earnings of parents (or applicant and spouse) or federal income tax paid indicate that these items do not appear to have a logical or standard relationship and may be in error. | Applicant should review financial records and Boxes 20, 22, 23, 24, 25 and 26 of Section 1 of the SER. If all are correct, the applicant should check (x) space that is provided in the Comment. If any of the above items are incorrect, applicant should enter correct amounts in the area provided in the Comment. |
| 4. The income earned by father and/or mother is larger than the amount given for 1977 adjusted gross income.... | Combined earnings of father and/or mother reported on the application is greater than adjusted gross income and parents marital status is reported married, widowed, or blank. | Applicant should review financial records, Boxes 22, 23 and 24 of Section 1. If information is correct, check (x) the space provided in the Comment. If any of the amounts are incorrect, indicate the correct value in the space provided in the Comment. |

| Comment | Reason | Action |
|---|---|---|
| 5. Give the following information about 1977 income.... | Dependent applicant has failed to indicate (has left blank) all parental income amounts for: non-taxable income father's earnings, mother's earnings and parental adjusted gross income and parents marital status is reported married, widowed, or blank. | Applicant should enter appropriate information that is requested in the the area provided in the Comment. Information includes: non-taxable income, number of persons claimed as tax exemptions, parents' adjusted gross income, father's earnings, mother's earnings, U.S. income tax paid, and amount of itemized deductions for income tax purposes. |
| 6. The amounts you entered in Boxes 27 (medical or dental expenses) and 28 (casualty or theft losses) appear to be incorrect.... | The combination of medical and dental expenses and casualty and theft losses is in excess of $5000. | Applicant should review financial records and Boxes 27 and 28 of Section 1 of SER. If information is correct he should check the Comment. If the amounts are incorrect, he should enter correct values in the space provided in the Comment. |
| 7. Your application was not signed by both you and your parent.... | The applicant is a dependent student and he and/or a parent did not sign the original application form. | The applicant and a parent should provide signatures in the "Certification Statement" box on the back of the SER and resubmit for processing. |
| 8. The amount you gave as earned income in 1977 is larger than the amount given for adjusted gross income.... | An independent applicant reported earnings for himself which are in which are in excess of the reported adjusted gross income. | Applicant should review financial records and Boxes 22, 23 and 24 of Section 1 of SER. If information is correct, place check in space provided in the Comment. If any amounts are incorrect, enter correct value in the area provided in the Comment. |

| Comment | Reason | Action |
|---|---|---|
| 9. The amounts you reported in Boxes 22 (adjusted gross income), 25 (U.S. income tax paid), and 26 (itemized deductions) appear to be inconsistent.. | U.S. income tax paid reported by applicant differs from the amount computed within the processing system. | Applicant should review his financial records and Boxes 22, 25 and 26 in Section 1 of SER. If the information is correct, check the space provided in the Comment. If any of the amount are incorrect, enter correct value in area provided in the Comment. |
| 10. The information submitted for this report cannot be processed because our records indicate you have previously applied for a 1978-79 Basic Grant... | Applicant has a previous 1978-79 application on file and cannot submit a new application for corrections. | If applicant has discovered errors in his original application he must make corrections on the SER generated from that first application. New applications will not be processed. If the student does not have a copy of this original SER, he may request a duplicate by checking the space provided in the Comment and returning the SER to the address indicated. |
| 11. What was the 1977 adjusted gross income of your parent? | Dependent applicant failed to indicate (left blank) parental adjusted gross income and father/mother earnings are blank or zero and parent marital status is reported other than married, widowed or blank. | Applicant should enter the amount of parent's 1977 adjusted gross income in space provided in the Comment. |
| 12. You report that your family received no income for 1977.... | Dependent applicant reported any combination of blanks, zeroes, or negative values (except all blanks) for nontaxable income, adjusted gross income, father's earnings and mother's earnings. | Applicant should review financial records and Boxes 20, 22, 23, 24 of Section 1 of the SER. If the family received no income for 1977, the applicant should check the space provided in the Comment. If the family did receive income, enter the appropriate amounts in the area provided in the Comment. |

| Comment | Reason | Action |
|---|---|---|
| 13. Your previous application or Student Eligibility Report was incomplete. This Report is void. Keep it for your records. | Application has sufficient blanks, errors, inconsistencies, etc. such that processing system would have generated 25 comments or more on on the SER. | Applicant should fill out the new application form which is enclosed as completely and as accurately as as possible and submit for processing. |
| 14. What was parents' 1977 adjusted gross income? | Dependent applicant failed to indicate a parental adjusted gross income but father's and/or mother's earnings were reported (nonblank) and parent marital status is reported married, widowed, or blank. | Applicant should enter amount of parents' adjusted gross income in space provided in the Comment. |
| 15. You reported you received no income in 1977.... | Independent applicant reported any combination of blanks, zeroes, or negative values (except all blanks) for non-taxable income, adjusted gross income, applicants earnings, and spouse's earnings. | Applicant should review records and Boxes 20, 22, 23, 24 of Section 1 of of SER. If he received no income for 1977, he should check the space provided in the Comment. If he did receive income he should enter the appropriate amounts in the area provided in the Comment. |
| 16. The Student Eligibility Report that you recently submitted was unsigned by both you and your parent... | Dependent applicant submitted and SER to correct or verify information but he and/or his parent failed to sign the corrected SER. | Applicant and his parent should both sign the "Certification Statement" box on the back of the SER and resubmit to the address specified in the Comment. |

| Comment | Reason | Action |
|---|---|---|
| 17. You have reported a blank or negative amount that cannot be accepted. Complete the following... | Applicant failed to report an asset's value but did report a debt; or applicant entered a negative amount for an item. | Applicant should review financial records and enter the correct amount for the financial item specified in the space provided in the Comment. |
| 18. The amounts you have listed for non-taxable income, adjusted gross income, income earned by your parent and U.S. income tax paid appear to be inconsistant.... | The combination of two or more processing edits involving reported adjusted gross, U.S. income tax paid, itemized deductions, parental earnings and non-taxable income indicate that these items do not appear to have a logical or standard relationship and may be in error. | Applicant should review financial records and Boxes 20, 22, 23, 24, 25, and 26 of Section 1 of the SER. If this information is correct, check the space provided in the Comment. If any of the above items are incorrect, applicant should enter correct amounts in the area provided in the Comment. |
| 19. The amount reported for home mortgage is larger than the amount reported for home value.... | Applicant reported a dollar amount for debts against home in excess of present market value of the home. | Applicant should review Boxes 30 and 31 of Section 1 of the SER. If the information is correct, check the space provided in the Comment. If either amount is incorrect, enter the correct value in the area provided in the Comment. |

| Comment | Reason | Action |
|---|---|---|
| 20. The amount reported for business debts is larger than the amount reported for business value.... | Applicant reported a dollar amount for debts against business in excess of the present market value of the business. | Applicant should review Boxes 34 and 35 of Section 1 of the SER. If the information is correct, check the space provided in the Comment. If either of the amounts is incorrect, enter the correct values in the area provided in the Comment. |
| 21. The field(s) indicated by question marks in Section 1 above were illegible on your application.... | Nature of information reported on application could not be determined because of illegibility. | Applicant should mark through the the question marks in the field(s) in question and enter the correct information. |
| 22. The amounts you have given for unusual expenses (Boxes 27 and 28) is larger than the amount given for income (Boxes 20 and 22).... | Applicant reported combined amounts of medical expenses, dental expenses, casualty losses, and theft losses which are in excess of the sum of non-taxable income and adjusted gross income. | Applicant should review financial records and Boxes 20, 22, 27 and 28 of Section 1 of the SER. If the information is correct, check the space provided in the Comment. If any of the amounts is incorrect, enter the correct value in the area provided in the Comment. |
| 23. This report is void. Keep it for your files. You have submitted an application that was signed before the 1977 tax year was completed... | Applicant submitted an application form signed prior to January 1, 1978. Since it would not be possible to have exact income and tax information prior to the end of the tax year, the application could not include precise financial data. | Applicant should reapply, using the enclosed application form as soon as possible. |

| Comment | Reason | Action |
|---|---|---|
| 24. You indicated that you are a graduate student. Therefore, you are not eligible for a Basic Grant.... | Applicant indicated on application that he is engaged in a graduate program of study. BEOG by law is limited to undergraduate students enrolled in undergraduate study and who have not received a baccalaureate or first professional degree. | If applicant is a graduate student, no further action regarding BEOG is possible. If student is not a graduate student or has not received a bachelor's degree and is enrolled in an eligible undergraduate course of study, Box 7 of Section 1 of the SER should be corrected by drawing a line through the previous answer and entering the correct answer (year in school = 5 or less). |
| 25. The income earned by your parent is larger than the amount given for 1977 adjusted gross income.... | Dependent applicant reported combined father's and/or mother's earnings in excess of adjusted gross income and parent marital status is reported other than married, widowed or blank. | Applicant should review financial records and Boxes 22, 23 and 24 of Section 1 of the SER. If the information is correct, check the space provided in the Comment. If any of the amounts are incorrect, enter the correct values in the area provided in the Comment. Income of one parent only should be reported. |
| 6. Give the following information about 1977 income: | Dependent applicant failed to report (left blank) any parental income amounts for: non-taxable income, father's earnings, mother's earnings, and parental adjusted gross income and parental marital status is reported other than married, widowed, or blank. | Applicant should enter appropriate information requested in the area provided in the Comment. Information includes: is parent the father or mother?, non-taxable income, number of persons claimed as tax exemptions, adjusted gross income, U.S. income tax paid, and amount of itemized deductions for income tax purposes. Income of one parent only should be reported. |

NOTE: Whenever a correction of any information is to be made on the Student Eligibility Report (SER) the student and his parent (if the applicant is dependent) must sign the "Certification Statement" box on the back of the SER and resubmit to the indicated address in order to have his eligibility for BEOG determined.

ATTACHMENT E

## 1978-79 Validation Procedures

A. **The Non-Payment Option**

1. **Student presents FAO with SER flagged for validation by OE.**

2. FAO determines whether or not student has all required documentation:

    A. Copy of their 1040 or 1040A (and spouse's, if appropriate)

    B. Copy of their parent's 1040 or 1040A if they are dependent

    C. Completed validation form

- or -

    A. Same

    B. Same

    C. Statement of dependency status using Basic Grant definition of "parent".

    For any of the years 1977, 1978, or 1979

    1. Did you or will you live with a parent for a period of time longer than two consecutive weeks? Yes ___ No ___

    2. Did you or will you receive assistance worth $600 or more from a parent? Yes ___ No ___

    3. Were you or will you be listed as an exemption on parents' Federal income tax return? Yes ___ No ___

    D. Statement including names, ages and relationship of all persons expected to be in the household as of the date they filed for Basic Grant.

    E. Statement of those listed in household who expected to be in postsecondary school on at least a half-time basis and the name and location of the schools.

    F. If student has reported total income of less than $1,000, FAO should have student provide a statement explaining the circumstances which enabled the household to live during 1977. FAO then evaluates the statement using professional judgement. If any question, FAO should call 800-638-2052 for assistance.

    All statements must be signed by the applicant (and spouse or paren' if applicable)

3. If any documentation is missing — inform student that they must supply all documentation before validation can continue.

   A. If student claims he/she is unable to obtain documentation, FAO should have the student provide statement describing the efforts made to obtain it and the reasons for not being able to obtain it. FAO then evaluates the statement using professional judgement. If any question, FAO should call 800-638-2052 for assistance.

   B. If the student refuses to provide documentation, FAO should inform the student that no payments will be disbursed. If the student insists on receiving his/her award, and continues to refuse to provide the documentation, the FAO should continue to withhold payment and refer the case to Basic Grant Program, U.S. Office of Education, P.O. Box 34437, Washington, D.C. 20034 for resolution. Before referring the case they should call 800-6[illegible]-2052 for instructions.

4. Once all documentation is received - FAO compares documentation to student's SER to determine if SER is correct.

| Required Data Elements | Compared to: |
|---|---|
| Adjusted Gross Income (Box 22 on the SER) | Federal Income Tax Return - line 31 of Form 1040 or line 10 of 1040A |
| Federal Income Taxes Paid (Box 25 of the SER) | Federal Income Tax Return - line 47 of Form 1040 or line 13 of 1040A |
| Household Size (Box 17)<br>No. in Post-High (Box 18)<br>Dependency Status (Boxes 13, 14, and 15) | Validation Form or statement from student (parent's or spouse if applicable) |

| Optional Data Elements | Compared to: |
|---|---|
| Non-taxable Income (Box 20) | Statements from the administering agency |
| Veteran's Benefits (Box 40) | Statement from Veteran's Administration of VA Cycle Report |
| Medical/Dental Expenses (Box 27) | Federal Income Tax Return - Total of lines 2 and 6 from Schedule A - IRS 1040 or medical and dental bills not covered by insurance |
| Casualty/ Theft Losses (Box 28) | Federal Income Tax Return line 29 of Schedule A - IRS 1040 or proof of loss by insurance |
| Applicant's/Parent;s Savings (Boxes 39 and 38) | Bank Statements |

A. If all information is correct or falls within $50 tolerance level, FAO disburses payment to student in usual manner and keeps all documentation in the student's file for audit and program review purposes.

B. If any item of SER disagrees with the documentation by more than $50, FAO should request student to: (1) correct all items to agree exactly with documentation; (2) have student (and parent or spouse if applicable) sign the SER; and (3) send the signed and corrected SER back to Basic Grants, P.O. Box C, Iowa City, Iowa 52240, for reprocessing.

C. When student presents corrected reprocessed SER to FAO, FAO ensures that the information is correct, then disburses payment to student in usual manner (keeping all documentation in the students file for audit and program review purposes).

B. The Payment Option

Steps 1 - 4A stay the same.

4. B. If any item on the SER disagrees with the documentation by more than $50, the financial aid officer may:

1. recalculate the student's eligibility index

2. based on the recalculated eligibility index determine if the student's scheduled award will differ by more than $100

a. if the scheduled award, based on the recalculated eligibility index, will differ by more than $100 the student must correct the SER and have it reprocessed before any payments can be disbursed.

b. if the scheduled award, based on the recalculated eligibility index, will not differ by more than $100 the financial aid officer may disburse the first payment (not to exceed ½ of the scheduled award) to the student and have the student correct the SER and have it reprocessed. No further payments may be disbursed to the student until the financial aid officer receives the reprocessed SER.

4. C. When the student presents the corrected reprocessed SER to the financial aid officer, the financial aid officer will ensure that the information is correct and disburse any additional payments to the student. If the eligibility index on the reprocessed SER differs from the one the financial aid officer calculated, the second payment must be adjusted. (All documentation must be kept in the student's file for audit and program review purposes.)

1. If the student does not submit the reprocessed SER, the financial aid officer should attempt to collect the total amount disbursed to the student. If they are unable to do so, they should refer the case to the Basic Grant Program, U.S. Office of Education, P.O. Box 34927, Washington, D.C. 20034 for collections. Call 800-638-2052 for instructions.

NOTE: Institutions should be aware that if the financial aid officer incorrectly recalculated the student's eligibility index and made the first payment based on that erroneously recalculated figure, the institution may be liable for an overaward.

Attachment F

## Key Addresses and Phone Numbers

### A. Post Office Boxes

| P.O. Box | Purpose | Comments |
|---|---|---|
| Basic Grants<br>P.O. Box C<br>Iowa City, Iowa 52240 | Corrections to SER | Corrected SER with signed certification statement |
| Basic Grants<br>P.O. Box T<br>Iowa City, Iowa 52240 | Request a duplicate | Applicant provides name, social security number, date of birth and asks for duplicate SER to be sent |
| Basic Grants<br>P.O. Box T<br>Iowa City, Iowa 52240 | Request a duplicate with a change of mailing address | Use special form or request a duplicate stating there has been a change of address, and provide name, social security number, date of birth and complete new address |
| Basic Grants<br>P.O. Box 34437<br>Washington, D.C. 20034 | Institutional referrals | For aid officers to refer to to the Office of Education those validation cases they have not been able to resolve |
| Basic Grants<br>P.O. Box 34927<br>Washington, D.C. 20034 | Collections | For aid officers to refer to the Office of Education those cases where they have been unable to recover funds received by students when there is an overpayment that is not the result of an institutional error |

### B. Telephone Lines

| Phone Number | Purpose |
|---|---|
| 800-553-6350<br>(Basic Grant Processing Center) | For assistance for students in resolving complex problems in getting a completed application record. |
| 800-553-6350<br>800-272-6490 (within Iowa) | For financial aid officers in handling problem cases where assistance is needed to determine the necessary action to get students' records properly processed; financial aid officer indicates that he or she is an aid officer, identifies the school and asks for a "processing specialist" |

| Phone Number | Purpose |
|---|---|
| Student Information Center<br>800-638-6700<br>800-492-6602<br>(within Maryland) | For assistance for students in answering their general questions about financial aid, reasons for being determined ineligible, status of their application record; assistance for financial aid officers in the calculation of the eligibility index |
| 800-638-2052<br>800-638-2628 | For assistance for financial aid officers for resolving problems in the validating of student records, and handling questions on the procedures for institutional validation |

ATTACHMENT G

## REQUEST FOR DUPLICATE COPY OF THE STUDENT ELIGIBILITY REPORT

## AND/OR

## REQUEST FOR AN ADDRESS CHANGE

PROCESSED AS A RESULT OF A 1978-79 BASIC EDUCATIONAL OPPORTUNITY GRANT APPLICATION

(Please Print)

NAME: ______________________________

SOCIAL SECURITY NUMBER: ___ ___ ___ ___ ___ ___ ___ ___ ___

BIRTH DATE: _____/ __/ _____
Month Day Year

ADDRESS. Street ______________________________
City ______________________________
State ______________________________
Zip Code ______________________________

(CHECK "/" THOSE THAT APPLY)

I hereby request _____ that you change my address to the above.

_____ that you forward a duplicate SER.

I certify that I am ______________________________
(print full name)
and that I understand that the knowing and willful request or acquisition of a record pertaining to an individual under false pretenses is a criminal offense under the Privacy Act ( U.S.C. 552a) subject to a $5,000 fine.

NOTE: Please read the above warning before signing the certification.

Please return to:

Basic Grants
P.O. Box T
Iowa City, Iowa 52240

______________________________
(signature)

# APPENDIX 6.—GUARANTEED STUDENT LOAN PROGRAM TASK FORCE TO IMPROVE GSL ACCOUNTING SYSTEM PLAN AND TIMETABLE

## Phase I -- Establish Improved Accounting System

| Task | Anticipated Completion Date |
|---|---|
| A. Project Initialization | |
| 1. Task Force selected (see attachment A) | 9/15/78 |
| 2. Prepare and submit response to 1978 GAO Audit Report (see attachment B) | 9 30/78 |
| 3. Develop project study plan (see attachment C) | 9/30/78 |
| 4. Develop list of major tasks and milestones | 10/31/78 |
| B. System Design | |
| 1. Procedural Design | 2/28/79 |

Certain basic procedural issues must be addressed and resolved before any decisions on system development design specifications can be decided.
Specifically these include:

-- The extent to which the accounting records will be maintained by the Bureau of Student Financial Assistance

-- the medium used to maintain the records

-- the procurement and contractor-related aspects regarding necessary changes and corrections in the data/records

For example, the use of microfilm or microfiche to store detailed account records is being considered, but it is not yet clear that this is either practical or feasible.

2. Individual Sub-System Design

For each of the following sub-systems within the Student Loan Insurance Fund (SLIF) a position/design paper will be developed covering the following: (1) A summary transaction listing; (2) A detailed listing showing every transaction; (3) A summary of account balances; and (4) A detailed listing of each account balance.

## TASK FORCE PLAN

| Task | Anticipated Completion Date |
|---|---|
| B. System Design (Con't) | |
| (a) Claims ((FISL) | 1/31/79 |
| (b) Collections (FISL) | 1/31/79 |
| (c) Claims (State Agencies) | |
| (d) Collections (State Agencies) | 3/31/79 |
| (e) Interest Billings | 2/28/79 |
| (f) Insurance Premiums | 2/28/79 |
| (g) Administrative Cost Allowances | 4/30/79 |
| (h) Loan Advances for Reserve Funds | 5/31/79 |
| (i) Loss Reserve Estmation Model | 6/30/79 |
| 3. Establish Overall System Design | 6/30/79 |

This task will involve identifying and developing the summary - level information and reports necessary to maintain the GSL accounting system. Such reports would include a periodic summary of all transactions and a periodic "trial balance" sheet.

### C. Implementation

Once all the position/design papers relating to the proposed system are completed and reviewed, they will be turned over to the appropriate BSFA division(s) for implementation. The Task Force will monitor the implementation and testing phase and provide technical assistance in resolving any problems or issues prior to full implementation. It should also be noted that the activities in this phase are dependent upon the data the new computor contractor is selected and the milestones may have to be revised accordingly.*

| Task | Anticipated Completion Date |
|---|---|
| (1) Hold an initial meeting with the BSFA contract project officer and new computor contractor to discuss the project (the requirements are not included in the RFP) | 1/31/79* |
| (2) Establish routine procedures to be used by the processing units. This includes identifying work schedules, record-keeping requirements, error correction procedures, etc. | 6/30/79* |

## TASK FORCE PLAN

| Task | Anticipated Completion Date |
|---|---|

D. Documentation

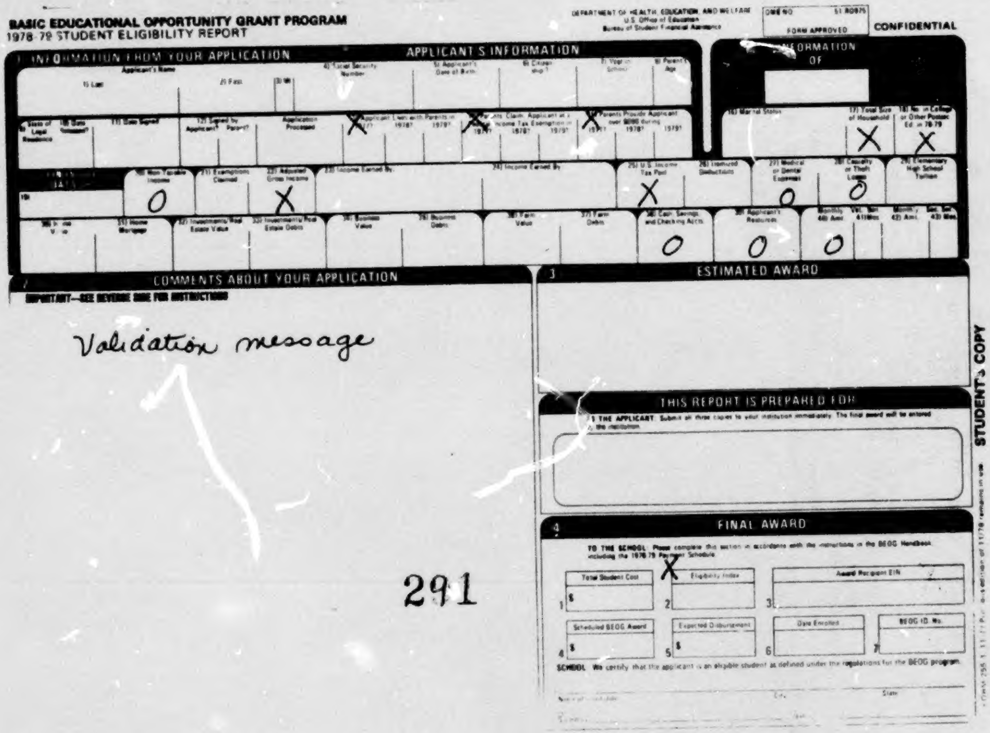
Preparation of complete system technical documentation will be the responsibility of the BSFA contract project officer; however, the Task Force will develop the following:

| | |
|---|---|
| (1) System user manuals and documentation | 9/30/79* |
| (2) Manual processing precedures manuals | 9/30/79 |

### Phase II-- Reconcile Historical Data Records Between BSFA and Finance Systems

This will be a very complicated and time-consuming task and will begin only after the initial system is operating. Because the exact nature and scope of the problems which might be encountered are not known, no reasonably accurate timetable can be provided at this time; however, it is anticipated that at least four months will be required to complete this task.

| | |
|---|---|
| (1) Develop study plan for reconciliation phase | 10/31/79 |



**BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAM**
1978-79 STUDENT ELIGIBILITY REPORT

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
U.S. Office of Education
Bureau of Student Financial Assistance

OMB NO 51-R0875
FORM APPROVED

**CONFIDENTIAL**

1 INFORMATION FROM YOUR APPLICATION — APPLICANT'S INFORMATION

Applicant's Name: 1) Last | 2) First | 3) MI
4) Social Security Number
5) Applicant's Date of Birth
6) Citizenship?
7) Year in School
8) Parent's Age

9) State of Legal Residence
10) Date Signed?
11) Date Signed
12) Signed by Applicant? Parent?
Application Processed
13) Applicant Lives with Parents in 1977? 1978? 1979? X
14) Parents Claim Applicant as Income Tax Exemption in 1977? 1978? 1979? X
15) Parents Provide Applicant over $600 during 1977? 1978? 1979? X

INFORMATION OF

16) Marital Status
17) Total Size of Household X
18) No. in College or Other Postsec. Ed. in 78-79 X

FINANCIAL DATA
19)
20) Non-Taxable Income 0
21) Exemptions Claimed
22) Adjusted Gross Income X
23) Income Earned By
24) Income Earned By
25) U.S. Income Tax Paid X
26) Itemized Deductions
27) Medical or Dental Expenses 0
28) Casualty or Theft Losses 0
29) Elementary High School Tuition

30) Home Value
31) Home Mortgage
32) Investments/Real Estate Value
33) Investments/Real Estate Debts
34) Business Value
35) Business Debts
36) Farm Value
37) Farm Debts
38) Cash, Savings and Checking Accts. 0
39) Applicant's Resources 0
Monthly 40) Amt. 0
Vet. Ben. 41) Mos.
Monthly 42) Amt.
Soc. Sec. 43) Mos.

2 COMMENTS ABOUT YOUR APPLICATION

IMPORTANT—SEE REVERSE SIDE FOR INSTRUCTIONS

Validation message

3 ESTIMATED AWARD

THIS REPORT IS PREPARED FOR

TO THE APPLICANT: Submit all three copies to your institution immediately. The final award will be entered by the institution.

4 FINAL AWARD

TO THE SCHOOL: Please complete this section in accordance with the instructions in the BEOG Handbook including the 1978-79 Payment Schedule.

1 Total Student Cost $
X
2 Eligibility Index
3 Award Recipient EIN
4 Scheduled BEOG Award $
5 Expected Disbursement $
6 Date Enrolled
7 BEOG ID. No.

SCHOOL: We certify that the applicant is an eligible student as defined under the regulations for the BEOG program.

Name of Institution | City | State

Signature | Title | Date

STUDENT'S COPY

# Student Eligibility Report (SER) Instructions

**TO ALL APPLICANTS:** This Student Eligibility Report (SER) is being sent to you as the result of your recent submission of an application for determination of Basic Grant eligibility for the 1978-79 academic year (July 1, 1978-June 30, 1979). Your SER should be reviewed carefully and completely. All information in Section 1 should be checked to make sure it is correct and all comments in Section 2 should be read. If any information is not correct, cross out the wrong data and enter the correct information above it.

If any corrections or additional information are provided, the certification statement below MUST be signed by you (and by a parent if parental information is reported in Section 1 of the SER). The last copy of the SER should be signed and submitted to Basic Grants, P.O. Box C, Iowa City, Iowa 52240. It should be noted that processing of corrected SERs will take about four weeks.

NOTE: Section 1 information should be considered accurate if it is correct as of the date the application was filed. Corrections CANNOT be made to reflect any changes in Section 1 information that have occurred SINCE the date the application was submitted (Date Signed, box 11 of Section 1).

---

[1] Further monies or other benefits may, but not necessarily will be withheld under this program unless this report is completed and filed as required under existing law and regulations (20 USC 1070a, 45 CFR 190.78)

---

### CERTIFICATION

I(We) certify that I(We) read the application and that this Student Eligibility Report is accurate and complete to the best of my(our) knowledge. I(We) agree to provide, if requested, any documentation, including a copy of my(our) 1977 Federal Income Tax Return, necessary to verify information reported on this form. I(We) understand that the results of the eligibility calculation and identifying information may be released to appropriate State Student Financial Aid Agencies and to the institution(s), if any, listed in item 7 of the application.

X ______________________ X
Signature of Applicant

X ______________________
Signature of Spouse

X ______________________
Signature of Parent or Guardian

X

| Month | | Day | | Year | |
|---|---|---|---|---|---|
| | | | | | |

### ELIGIBLE APPLICANTS

You should immediately submit this SER to the financial aid office at the institution in which you plan to enroll for the 1978-79 academic year. This school will then calculate a preliminary award and inform you of that amount. At the time of your actual enrollment, your final award will be calculated and entered on the SER and one copy returned to you.

If you are considering more than one institution, you may wish to send one copy (or photocopy) of your SER to each institution. At the time of your actual enrollment, you MUST submit a set of three copies of the SER to the financial aid office.

Additional sets of your SER may be obtained by writing to: Basic Grants, P.O. Box C, Iowa City, Iowa 52240. Be sure to include your name, permanent mailing address, and Social Security number. It will take about three weeks for another SER to be mailed to you.

### PAYMENT OF AWARD

In order to receive payment of your Basic Grant award, you must enroll in an eligible program at an eligible institution on at least a half-time basis. If your school is eligible for Basic Grants but does not make direct payment of Basic Grant awards, check with the school for further information concerning the method of payment, or write to Basic Grants, P.O. Box K, Iowa City, Iowa 52240. Be sure to include your name, address, Social Security number, and the name and address of your institution.

The amount of your Basic Grant award is based on your eligibility index and the cost of education at the school you plan to attend. You will receive less than a full award if you are enrolled for less than a full school year and/or on a less than full-time basis. Contact your financial aid officer for further details.

### DEADLINE DATES

In order to receive payment of a Basic Grant for the 1978-79 academic year, you must submit a valid SER, while actually enrolled, by May 31, 1979 or the end of the school year, whichever is earlier. In meeting this deadline, it is important to remember that any additional information or corrections to the SER must be received by May 5, 1979. Processing of corrections or additional information will take about four weeks.

### TRANSFER STUDENTS

If you transfer to another eligible school during the 1978-79 academic year, you may receive a Basic Grant Award at the second school. You will need to submit a new set of three copies of your SER to the financial aid office at that school. To obtain another set, write to Basic Grants, P.O. Box C, Iowa City, Iowa 52240. Be sure to include your name, permanent mailing address, and Social Security number.

### CHANGE IN FINANCIAL SITUATION

For applicants whose financial circumstances have changed significantly since 1977, it may be possible to file a Supplemental Form together with a Basic Grant Application. This Supplemental Form provides the specific criteria which must be met in order for a student to file a Basic Grant Application which uses estimated 1978 income data rather than actual 1977 information. Supplemental Forms are available from high school guidance counselors and post-high school financial aid officers, or by writing to Basic Grants, P.O. Box 84, Washington, D.C. 20044. If you have experienced a dramatic change in financial circumstances from 1977 to 1978, please review the conditions on the Supplemental Form carefully to determine if you are eligible to file in this manner.

NOTE: The conditions for filing the supplemental form are listed in the instruction booklet for the BEOG application. You can obtain a supplemental form and a BEOG application form from your school counselor or postsecondary financial aid officer. Fill out *both* documents. These should be sent to the Iowa City address shown on the supplemental form.

NOTE: If, in the time since you applied for a Basic Grant, the person(s) whose assets are reported in Section 1 of this SER has experienced loss of, or damage to, those assets due to a disaster occurring in an area declared a National Disaster Area by the President, you are eligible to correct the SER to reflect those losses. If you believe that you are eligible to make this correction, you should contact your financial aid officer for further instructions.

### GENERAL INFORMATION

If you are interested in specific information on the method used in determining your Basic Grant Eligibility Index, please write to: Basic Grants, P.O. Box 84, Washington, D.C. 20044. Ask for a copy of "Basic Grant Eligibility."

If you would like to receive additional information on how the Basic Grant Program works, as well as general information on student financial aid, please write to: Basic Grants, P.O. Box 84, Washington, D.C. 20044. Ask for a copy of the "Student Guide."

### TO THE SCHOOL OR COLLEGE

If your institution is not eligible for the Basic Educational Opportunity Grant Program, please return this Report to the applicant, noting that your institution is ineligible. Your institution must be eligible before payments can be made. If you are not sure if your institution is eligible, contact: Director, Division of Eligibility and Agency Evaluation, Bureau of Postsecondary Education, U.S. Office of Education, Washington, D.C. 20202. If your institution has certain programs that are not eligible, make sure the applicant has chosen an eligible program before calculating the award.

ATTACHMENT A

## BUREAU OF STUDENT FINANCIAL ASSISTANCE
## GUARANTEED STUDENT LOAN PROGRAM (GSL)
## TASK FORCE TO IMPROVE GSL ACCOUNTING SYSTEM
## LIST OF MEMBERS

Richard Dix, Division of Policy and Program Development (Chairman)

Guy Danley, Office of Education Finance Division

Gary Harrison, Division of Systems Design and Development

Frank Meyerle, Division of Quality Assurance

Maurice Tansey, Division of Program Operations

ATTACHMENT B

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. [illegible]

Gregory J. Ahart, Director
Division of Human Resources
United State General Accounting Office
Washington, DC 20548

Dear Mr. Ahart:

Thank you for your letter of September 8, 1978 on the annual examination of the financial statements of the Student Loan Insurance Fund.

At the outset I wish to assure you that both Commissioner Boyer and I share your concern with respect to the major findings which you have so succinctly summarized in your letter report to me. I particularly regret that the findings you have summarized have existed for such a protracted period of time. I also wish to assure you that we are attempting to fully comply with your recommendation that the Department "develop a plan of action that will detail the steps needed to improve (1) the Student Loan Insurance Fund accounting controls and procedures and (2) the computer system that provides data for the Student Loan Insurance Fund and the management of the GSL programs."

The magnitude of the problems which you have reported have also become apparent to me and I requested the Bureau of Student Financial Assistance to undertake an initiative which would resolve these problems in a systematic and orderly way.

The Bureau's response to my request was the establishment of a Task Force which has as its first major effort, the development of a plan to improve the Guaranteed Student Loan Program accounting system. The Task Force effort, although begun and sustained for somewhat different reasons, is wholly complementary of your concerns.

At the present time we are unable to provide detailed milestones in all cases, as you requested, but as the Task Force addresses these various problems we will develop milestones and I will provide you with periodic progress reports on our accomplishments.

I appreciate your concern for the Guaranteed Student Loan Program.

Sincerely yours,

Joseph A. Califano, Jr.

Attachment

## STATEMENT OF DEPARTMENT ACTION

The following comments were developed in coordination with interested officials as the Department's Statement on actions taken or planned on the U.S. General Accounting Office's letter report on "The Annual Examination of the Financial Statements of the Student Loan Insurance Fund", dated September 8, 1978.

Thomas D. Morris
Inspector General

### OVERVIEW

The Department concurs with GAO's assessment of the financial statements of the Student Loan Insurance Fund and has initiated fundamental efforts to overcome the various problems detailed in the report. The problems were of such a basic nature as to require the creation of a task force to improve the Guaranteed Student Loan Program (GSLP) accounting system. As the Task Force's initial draft report recognized, "the General Accounting Office (GAO) has identified significant deficiencies in the actions. Some of these problems have persisted uncorrected for several years." The Report continued: "In order to correct these, and other related problems within the GSLP, a Task Force has been formed within the Bureau of Student Financial Assistance (BSFA) consisting of representatives from each of the major program divisions in the Bureau as well as OE Finance Division. The Task Force is mandated to develop an overall accounting system structure, which when fully implemented will assure that the future financial statements prepared by the GSL Program fairly represent the results of its operations and the changes in the financial position of the Fund for the year then ended. It will also monitor implementation of the planned system and provide assistance in resolving any problems which arise to ensure a smooth and timely transition."

The plan has addressed most of the problems summarized in Enclosure I of the Report. It is divided into two phases. As it reported: "Phase I will involve developing a plan to ensure that transactions entering BSFA and OE Finance's systems balance on an on-going basis, and that appropriate controls are instituted by BSFA. Phase II will involve a reconciliation of all records between the two systems (Finance and BSFA). However, Phase II is a major undertaking, and developing a plan to accomplish this will be addressed by the Task Force only after the initial plan relating to Phase I has been implemented and successfully operating."

The portions of the plan addressed to subsidiary records, i.e.: 1) accrued interest receivable, 2) insurance premiums receivable, 3) defaulted loans receivable, and 4) claims-in-process, are quoted directly below from the

Task Force's initial draft report. Problems with respect to the loss rate model, coordination between BSFA and OE Finance Division, and computer support are discussed in the separate sections below.

Subsidiary Records Will Be Maintained

'1. ACCRUED INTEREST RECEIVABLE

**Problem:** Currently must be estimated and is not supported by detailed records.

**Proposed Action:** Establish systematic way of identifying all transactions to ensure that both receivable and income entries are reflected. Ensure that all such entries are recorded in the subsidiary records. Produce: (a) a detail record of all transactions entries that can be routinely reconciled; and (b) a periodic (monthly) summary report.

2. Insurance Premiums Receivable

Problem: No aging of accounts receivable and no record of accounts due.

Proposed Action: Produce an over-due accounts receivable report summarized by account age, so follow-up action can be taken. Also produce a periodic (monthly) summary report of this file that can be routinely reconciled.

Problem: Records for 1200 lenders missing from the computer file.

Proposed Solution: While this problem, cited by the GAO, is considered by GSLP as non-critical to the current status of the Fund, the Task Force will review it and take appropriate action during Phase II.

3. Defaulted Loans Receivable

Problem: Imbalance between totals in OE Finance's System and BSFA subsidiary records.

Proposed Action: Establish procedures for displaying and transmitting to OE Finance Division information for each account such as: (a) original claim amount paid; (b) accrued interest; (c) payments received; (d) adjustments or write-offs; and (e) current balance. A recording of all transaction entries as well as summary reports of the subsidiary records will be produced.

4. Claims- In- Process

**Problem:** Lack of detailed supporting records.

**Proposed Action:** Improve the current method of reporting obligations from existing subsidiary records (Claret-file). Differentiate between all claims in process by summarizing all accounts as to current status, amount, year of obligation, balance, etc. (payments and new obligations). Produce a periodic summary report (monthly) in support of the reconciliation process."

The milestones for these tasks will be provided in "a detailed report (which) will be forwarded to the Deputy Commissioner by October 31, 1978,... (and) will outline individual tasks and milestones for Phase I. A detailed plan for Phase II—the reconciliation effort—is not expected until sometime early 1979, when more information will be available on the status of the BSFA computer contractor and how Phase I is progressing."

## Loss Rate Model Will Be Developed

An allowance for losses in receivables for defaulted loans, accrued interest, and in claim-in-process has been estimated in the past, and has not been based upon program experience. The Bureau has plans to develop, under contract, and automated model which would use historical program data to project future losses in these accounts. This effort is part of an overall project to update and refine the GSL Budget estimation model. The contract for these projects is expected to be released sometime early in FY-1979.

## Coordination Between OE Finance and BSFA Will Be Improved

The OE Finance Division will be the primary fiscal agent for the Student Loan Insurance Fund and will maintain the Fund's general ledger. The BSFA will maintain the detailed subsidiary accounts for the Fund. The Task Force will design the interface between the two groups and establish effective controls to ensure that the data in both systems balance.

## Computer Support Will Be Addressed

A considerable portion of Enclosure I details the history of computer support of the GSLP and cites various problems in the development of the current successor system. This system was reputedly developed on the basis of the escrow agent concept. Although it is true that the escrow system was one of the potential applications for the current GSL system, it is not true that the system is wholly dependent on the full development of the escrow concept or that the escrow concept is the only use that can be made of the current system. Thus the current system is not dependent on the escrow concept, and it is not contemplated at this time that the escrow system will be re-established.

At present the new Request for Proposal (RFP) for basic computer support does not include the escrow processing as a portion of the deliverable system. Any further implementation of such a system could not reasonably take place during FY 1979. The current RFP does address the system deficiencies of the prior system.

Most of the previous plans for resolving the problems on the accuracy and reliability of interest billings have been modified or abandoned and new solutions sought.

As part of work being completed by another task force on the Loan Control Master File (LCMF), several tasks have been identified which should improve the program's control over interest billings. The Bureau has developed a comprehensive three pronged approach by controlling, auditing, and monitoring the interest billings. Controlling interest billings has begun with an in-house study of computer checks which will be applied to all interest bills. These will identify those payments which do not conform to established patterns for similar sized lending institutions or the historical pattern of the institutions being reviewed. Additionally, we hope to provide for audit coverage of the largest lenders through understandings reached with other regulatory bodies which are already monitoring the lending community. To date we have met with the Federal Deposit Insurance Corporation and the Comptroller of the Currency. The response at these meetings has been encouraging. We are also scheduled to meet with the Federal Reserve System, National Credit Union Administration and the Federal Home Loan Bank Board in the near future. If we are successful in persuading these organizations to include our concerns in their present audits, we contemplate that they will flow through the Bureau's standard audit channels and will review specifically the interest benefits and special allowances. These plans are being developed in conjunction with the Office of Inspector General. It should be emphasized that they are still tentative. Until such time as it can be determined whether the cooperation of the respective organizations can be secured, these plans must be considered exploratory. While we hope to have other Federal agencies deal with the large volume lenders, BSFA staff will concentrate on the smaller lenders and those which have the largest default rates. A task force has been convened to revise the current (October 19, 1976) Field Examiner's Manual with a target date of October 31, 1978 set for the first draft.

Correction of the problems on the LCMF has been initiated by task orders given to the current computer support contractor. The Bureau has established a plan of action to lessen the problems related to the LCMF. The nature of the errors in the system can be characterized into two areas: (1) primary errors where actual records of committed loans or disbursements are missing; and (2) timing errors, where dated information is present in our files because of the volume of students tracked, our reliance on the recordkeeping systems of the various schools and lenders, and the annual nature of the educational cycle.

It is our opinion that the primary errors are minor in relation to the integrity of the data base, but we do have timing problems in tracking a student's status. The tasks outlined in the plan of action will be implemented during the next year and will alleviate most of this problem. Specifically, the updating process from the defaulted loans to the commitment file (LCMF) is in the list of tasks currently assigned to the computer contractor. A major, one-time update from the FISL files to the LCMF occured last March, and will be an ongoing process by December 1978. An ongoing update from the state claims is now scheduled to be installed by next March.

In conclusion it should be noted, as GAO has already pointed out, that some of our plans for implementation may slip because of the current RFP for computer support in GSLP, and the potential for disruption during the implementation phase of the new contract. Under any circumstance we will have prepared the necessary designs and specifications required to implement our proposals when the resources become available.

## ATTACHMENT C

## BUREAU OF STUDENT FINANCIAL ASSISTANCE

## IMPLEMENTATION PLAN

## IMPROVING THE GUARANTEED STUDENT LOAN PROGRAM ACCOUNTING SYTEM

### I. BACKGROUND

The Guaranteed Student Loan program (GSLP) was established by Title IV, Part B, of the Higher Education Act (HEA) of 1965 (PL 89-329) and the National Vocational Student Loan Insurance Act of 1965 (PL 89-287, which was repealed in 1968. Its purpose is to assist in removing financial barriers to postsecondary education by enabling students to borrow from commercial and other lenders to help pay for the cost of education and training at over 8,120 eligible universities, colleges, and vocational schools. Loans are either guaranteed by State or private non-profit agencies or insured directly by the Federal government. Guaranteed loans are made to eligible students primarily by 14,140 commercial lenders. Currently 102 educational institutions and 8 State agencies also make loans.

The major Federal expenditures for this program are for paying interest subsidies, special allowance, and default claims and related costs. The Federal government pays up to a 7 percent interest subsidy on behalf of eligible students while they are in school, during a maximum 12-month grace period following graduation or withdrawal from school, and during authorized periods of deferment. Any student whose adjusted family income is less than $25,000 is eligible for a 7 percent Federal interest subsidy. Students having adjusted family income of $25,000 or greater and applying for a subsidized loan must submit to the lender the school's assessment of the family's inability to pay for the cost of education.

A special allowance is authorized to be paid to lenders to help provide a yield consistent with current money market conditions. The current quarterly rate is the average bond equivalent rate for 91 day Treasury Bills auctioned during the quarter, minus 3.5 percent rounded up to the nearest 1/8 of 1 percent, and divided by 4. By law, the maximum annual rate for special allowance is 5 percent.

Upon default, the Federal government normally pays the lender 100 percent of the unpaid principle balance plus interest on loans under the Federally Insured Program, and 80 percent to Guarantee Agencies under the Federally Reinsured Program. Guarantee Agencies however, can enter into supplemental guaranty agreements under which they receive 100 percent reinsurance payments on defaults at the beginning of the year.

Then, depending upon the amount of claims paid as a function of loans in repayment status, their payments may be reduced to 90 or 80 percent later in the year.

In the case of the borrower's death or total and permanent disability, the Federal government pays the outstanding principal and interest on loans made on or after December 15, 1968. For loans made prior to that date, the government pays only the principal amount. The Federal government will also pay the outstanding principal and interest on any loan, when the borrower is legally discharged in bankruptcy.

## II. MAJOR INITIATIVE

The costs for this program are funded from appropriations to the Student Loan Insurance Fund (SLIP). In its recent annual audits of this Fund, the General Accounting Office (GAO) has identified significant deficiencies in the accounting system and procedures used to record and report financial transactions. Some of these problems have persisted uncorrected for several years.

In order to correct these, and other related problems within the GSLP, a Task Force has been formed within the Bureau of Student Financial Assistance (BSFA) consisting of representatives from each of the major program divisions in the Bureau as well as the Office of Finance. The Task Force is mandated to develop an overall accounting system structure, which when fully implemented, will assure that the future financial statements prepared by the GSL program accurately represent the results of its operations and the changes in the financial position of the Fund for that fiscal year. It will also monitor implementation of the planned system and provide assistance in resolving any problems which arise to ensure a smooth and timely transition.

## III. APPROACH

Phase I will involve developing a plan to ensure that transactions entering the BSFA and O.E. Finance systems balance on an on-going basis, and that appropriate controls are instituted by BSFA.

Phase II will involve a reconcilation of all historical records between the two systems (Finance and BSFA). However, Phase II is a major undertaking, and developing a plan to accomplish this will be addressed by the Task Force only after the intitial plan relating to Phase I has been implemented and successfully operating.

Following are some of the problems relating to Phase I which have already been identified and a brief description of action planned to resolve them:

### 1. ACCRUED INTEREST RECEIVABLE

Problem: Currently must be estimated and is not supported by detailed records.

Proposed Action: Establish a systematic way of identifying all transactions to ensure that both receivable and income entries are reflected. Ensure that all such entries are recorded in the subsidiary records. Produce: (a) a detailed record of all transaction entries that can be routinely reconciled; and (b) a periodic (monthly) summary report.

2. Insurance Premiums Receivable

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Problem: Records for 1200 lenders missing from the computer file.

Proposed Solution: While this problem, cited by the GAO, is considered by GSLP as non-critical to the current status of the Fund. However, the Task Force will review it and take appropriate action during Phase II.

3. Defaulted Loans Receivable

Problem: Imbalance between totals in O.E. Finance's System and BSFA subsidiary records.

Proposed Action: Establish procedures for displaying and transmitting to O.E. Finance information for each account such as: (a) original claim amount paid; (b) accrued interest; (c) payments received; (d) adjustments or write-offs; and (e) current balance. A recording of all transaction entries as well as summary reports of the subsidiary records will also be produced.

4. Claims - In - Process

Problem: Lack of detailed supporting records.

Proposed Action: Improved the current method of reporting obligations from existing subsidiary records (Claret-file). Differentiate between all claims in process by summarizing all accounts as to current status, amount, year of obligation, balance, etc. Produce a periodic summary report (monthly) in support of the reconciliation process.

Note: Resolving each of these program, as well as others to be identified, will require establishing one or more organizational units which will perform the operational accounting and bookkeeping functions.

## IV. TIMETABLE

A detailed report will be forwarded to the Deputy Commissioner by October 31, 1978, which will outline individual tasks and milestones for Phase I. A detailed plan for Phase II--the reconciliation effort--is not expected until sometime early 1979, when more information will be available on the status of the BSFA computor contractor and how Phase I is progressing.

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